Q2 2019 Financial Results

Aug 1, 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 financial guidance and key drivers thereof, the timing and impact of our new and planned initiatives, including our free shipping program, anticipated launch of our unified ad platform, and our planned acquisition of Reverb, the anticipated impact of our product launches on conversion rates and our future financial results, and the timing of our full migration to Google 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; (14) acquisitions which may prove unsuccessful or divert management attention, including our potential 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 March 31, 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

Another quarter of solid execution across the board...

GMS

$1.1B

+21.4% Y/Y

+22.8% Y/Y (FX adj.)

Revenue

$181M

+36.8% Y/Y

Net Income

$18M

$0.14 EPS[1]

Adj. EBITDA[2]

$40M

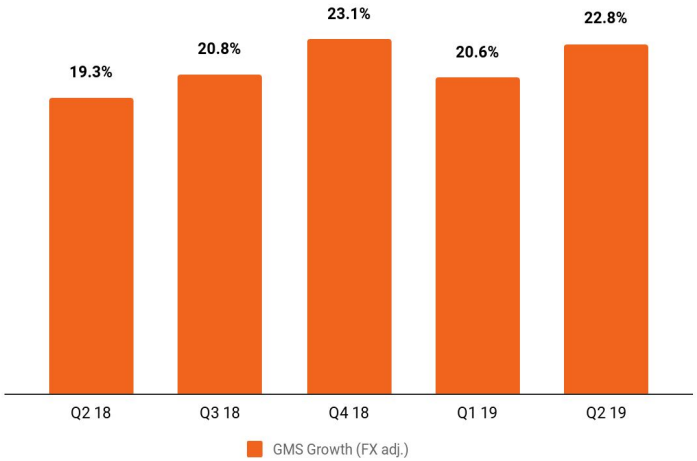
22% Margin

Portfolio of product and marketing investments delivered strong results

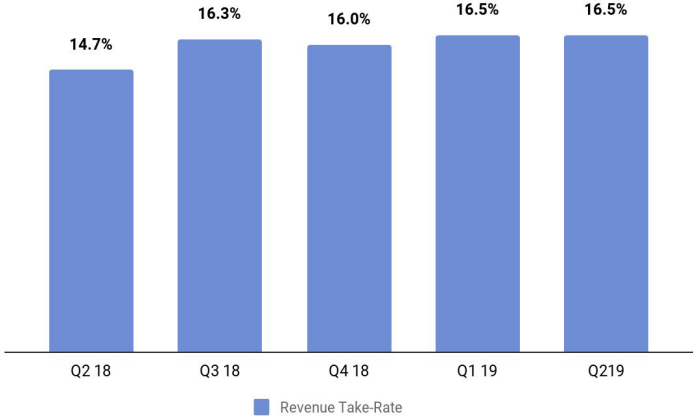
[1]EPS reflects diluted earnings per share
[2]Reconciliation of non-GAAP financial measures is contained in the appendix

...with accelerating GMS growth and stable take-rate

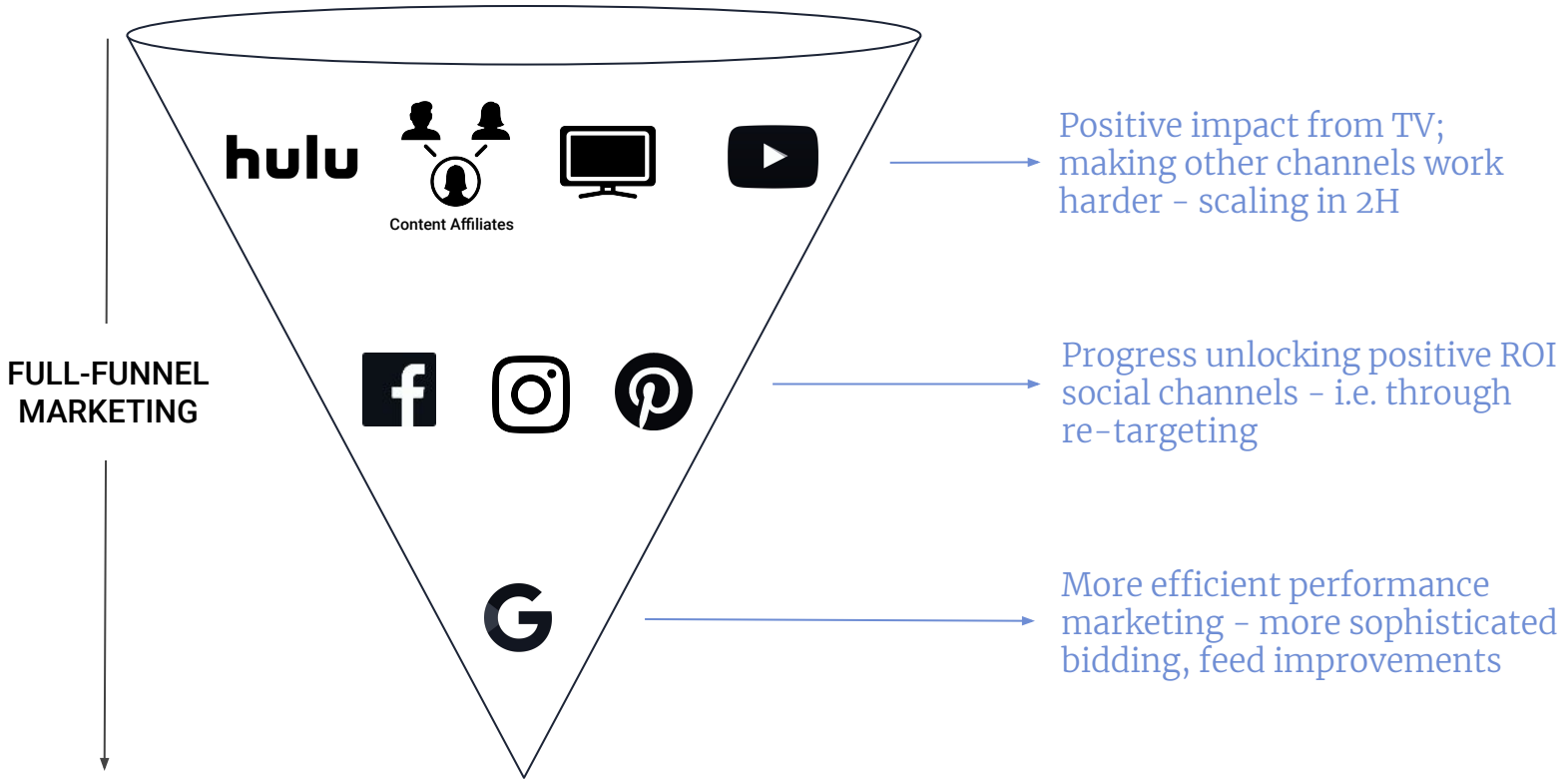
GMS Growth (FX adj.)



Revenue Take-Rate



Marketing investments continued to yield positive ROI



Encouraging results from Q2 TV campaign

Etsy "Belongings" Campaign

Q2 Investment Highlights:

- Those exposed to our ads **20% more likely** to convert
- **Purchase intent** improves significantly
- We have expanded TV measurement
- Leveraging our insights we **optimized the media mix** toward the highest performing networks and creative

Results from Q2 TV and digital video campaign will guide our future investments

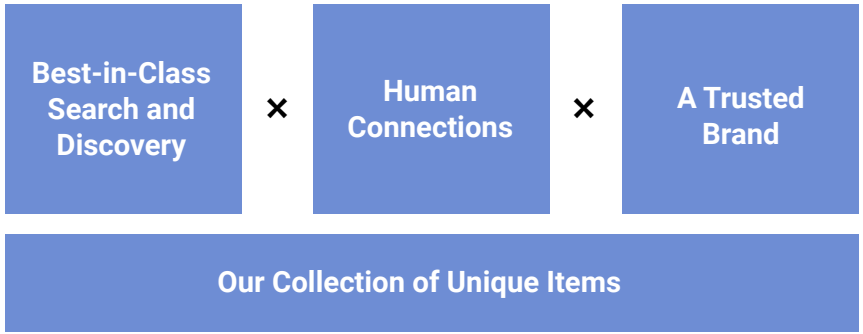
Ryan Scott

CMO

- Two decades of marketing and e-commerce experience
- Has led end-to-end consumer experience from product development to growing brand affinity for several high growth tech companies
- Has a terrific track record of building and developing world-class teams

Strong execution of our growth strategy drove high productivity

Build a sustainable competitive advantage around four key elements



Product Development Highlights

- Product experiment velocity expanded to all-time high, surpassing the record set in Q1
- High productivity of teams, measured by incremental GMS and conversion rate
- Continue to see incremental returns as we scale our product teams

Resulting in an improved customer experience

We are making it easier for sellers to offer free shipping

Free Shipping over $35 for US buyers.

July 2018 - July 2019

Test & Design Phase

Research indicated that shipping cost is a critical friction point for buyers.

Conducted extensive qualitative and quantitative research in order to determine the optimal structure for the program, supporting sellers & buyers

Developed sellers tools, educational materials and messaging

July 2019 - September 2019

Announcement & Seller Adoption

Etsy concluded that a $35 order threshold was optimal; unveiled plans to make free shipping a core part of the shopping experience

Sellers are provided resources and education to adopt the guarantee

Items that ship free to US buyers and shops that offer a free shipping guarantee will receive priority placement in US search

September 2019

US Buyer Launch

Etsy will begin actively marketing the availability of free shipping to buyers to drive more traffic to sellers

Etsy Ads: streamlining our ad products to unlock seller budgets and deliver additional growth

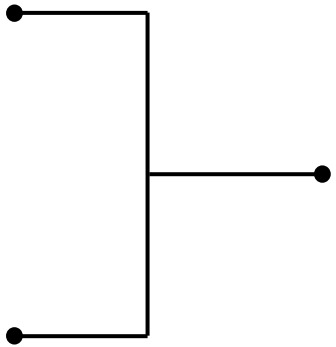
Existing Products

1 **Promoted Listings**

Search ads on Etsy funded by sellers

2 **Google Shopping**

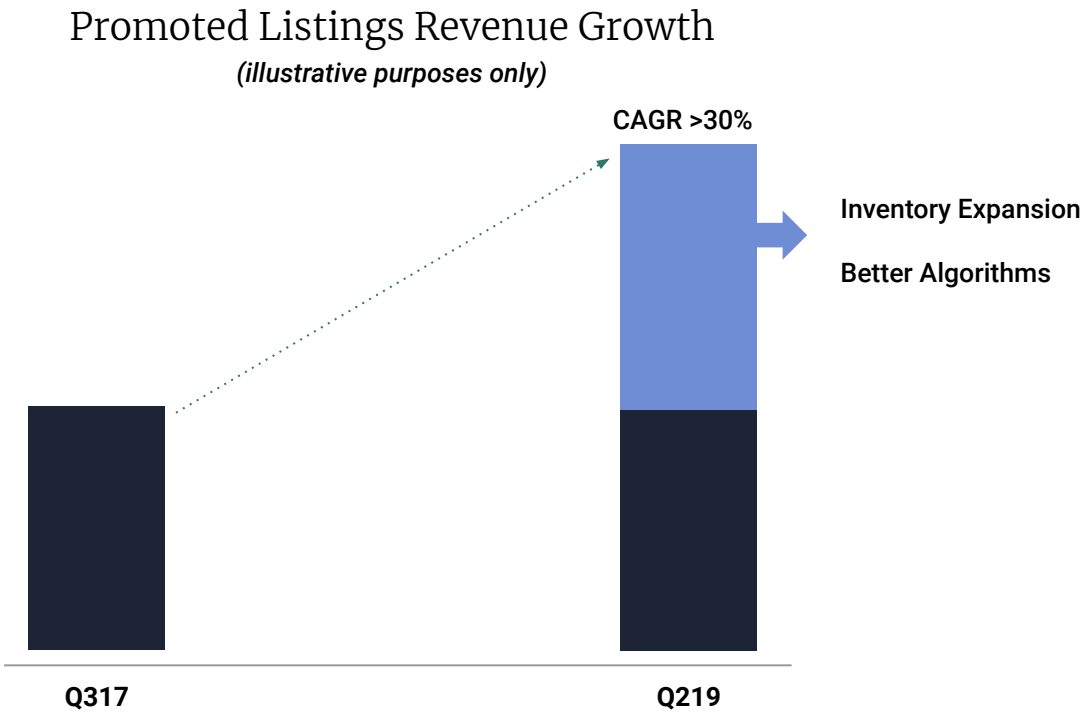
Search ads on Google funded by sellers



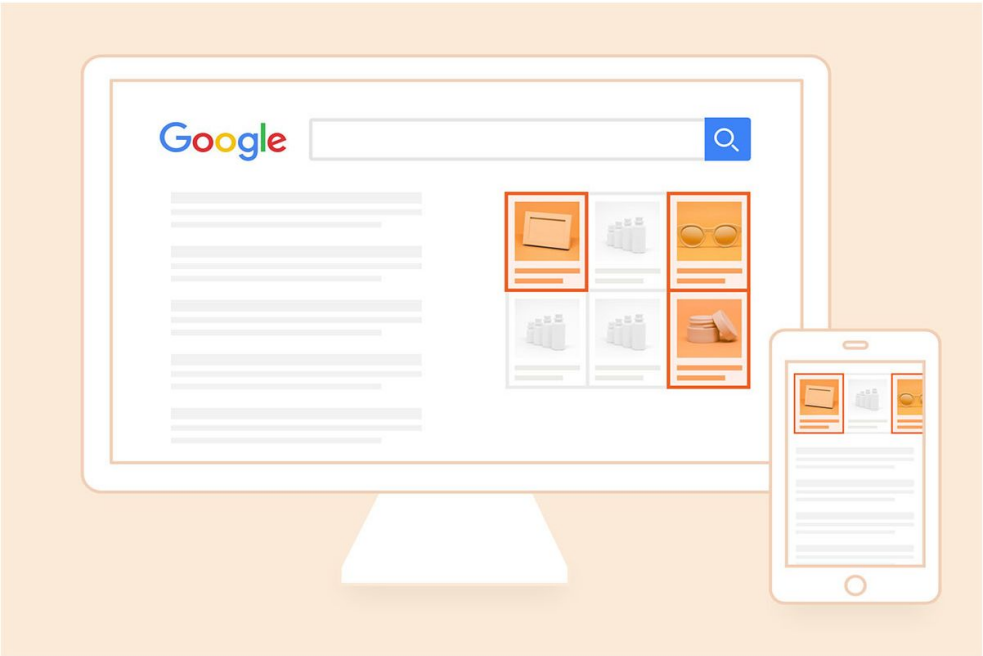
New: Etsy Ads

A single growth platform that automatically maximizes visits across multiple channels

ProList revenue growth has been driven by inventory expansion and improved algorithms



Google Shopping is a much smaller ad channel on Etsy relative to Promoted Listings



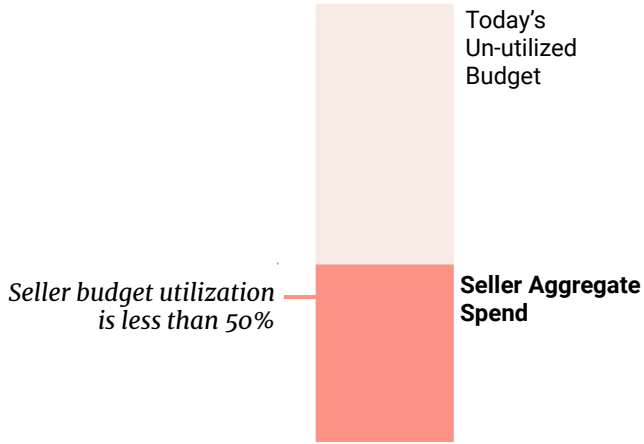
- Separate ad buy and campaign for sellers
- We buy PLAs as a service for our sellers to drive traffic to their listings
- Campaigns can be difficult and intimidating to manage
- Sellers want to optimize between channels and spend more to drive traffic

Etsy Ads will better enable us to optimize seller budgets

Illustrative Budget Utilization

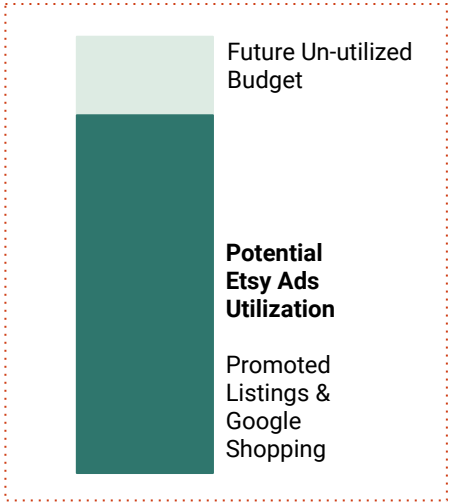
BEFORE:

Two separate, paid ad products



NEW:

Unified ad platform



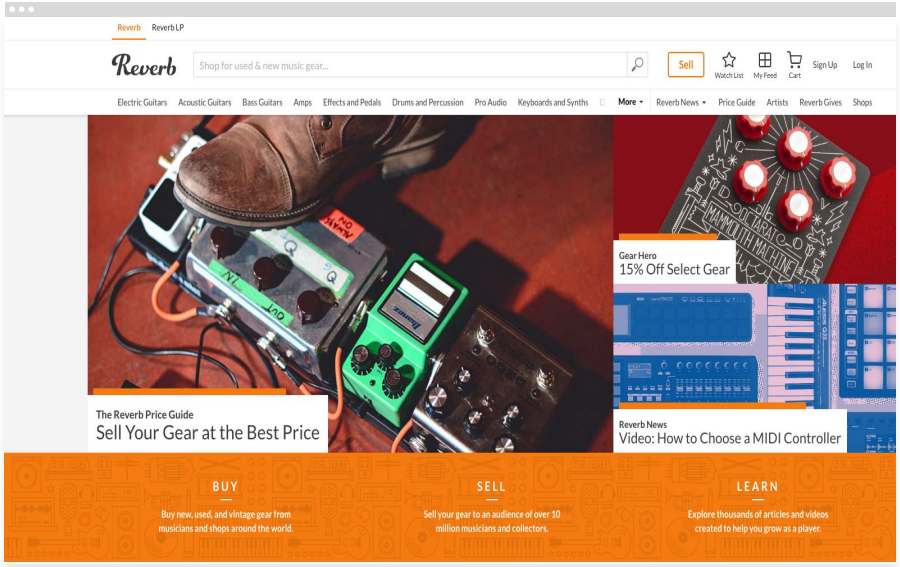
Putting our balance sheet to work: agreement to acquire Reverb

Company Overview

- **Founded: 2013**
- **Headquarters: Chicago, IL**
- **Leading online marketplace for new, used and vintage music gear**
- **Core markets: US, UK, Canada, France, Germany, Australia**
- **Employees: 170**

Strategic Rationale

- **Two-sided marketplace with mission & business model closely aligned with Etsy**
- **Strong brand with a significant competitive advantages**
- **Etsy brings expertise in marketplace management, search & discovery, product development, buyer and seller marketing**
- **Expanding on-line category that Reverb helped to create**



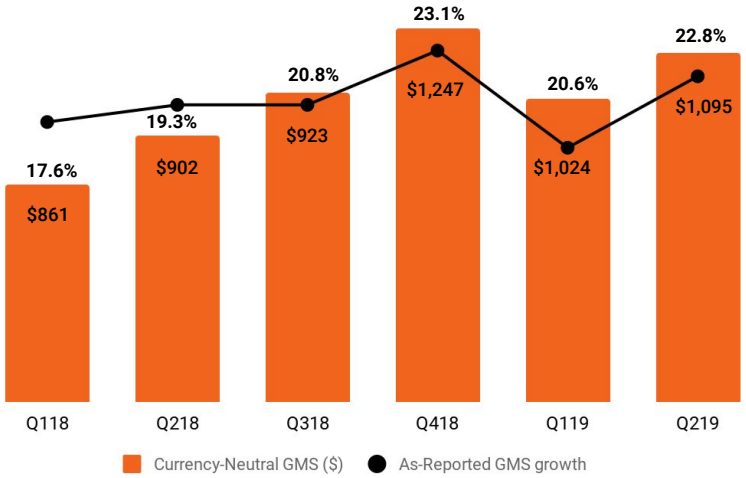
"The Etsy of Musical Instruments"

Rachel Glaser

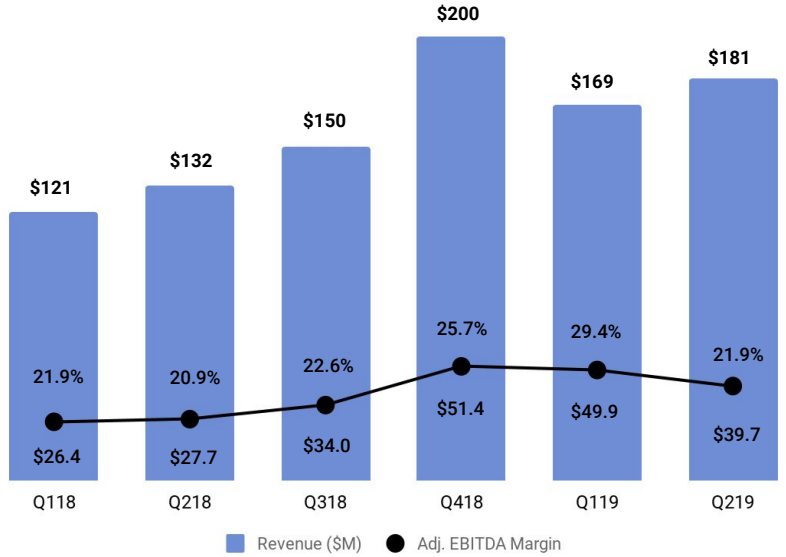
CFO

Strong execution has led to solid financial results...

GMS



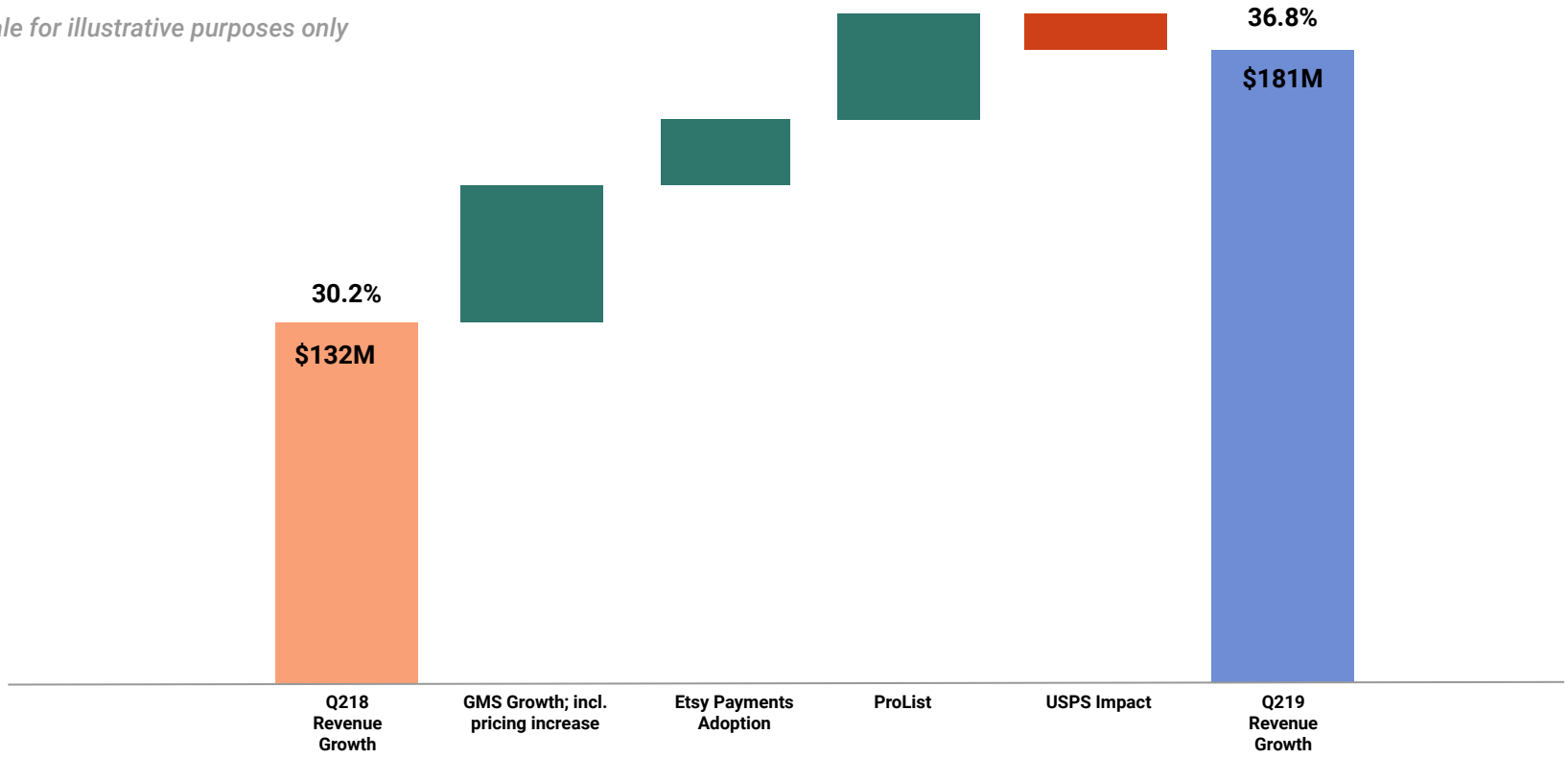
Revenue & Adj. EBITDA Margin[1]



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

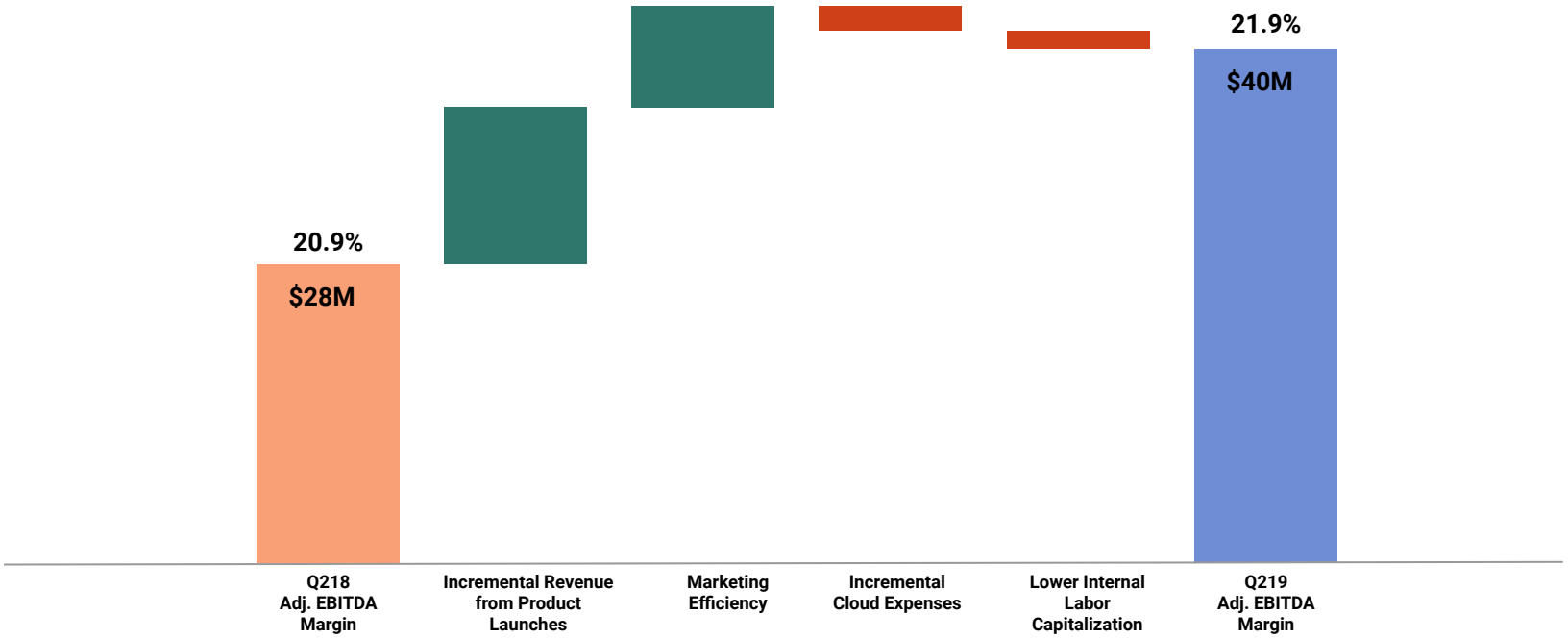
Q2 Revenue Growth Drivers

Scale for illustrative purposes only



Q2 EBITDA and Margin Drivers

Scale for illustrative purposes only



Our flywheel gets stronger as key operating metrics improve

Active Buyers

43M

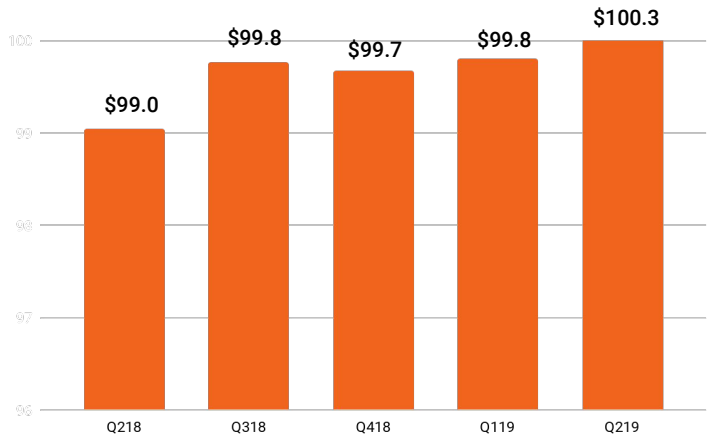
+19% Y/Y

Active Sellers

2.3M

+18% Y/Y

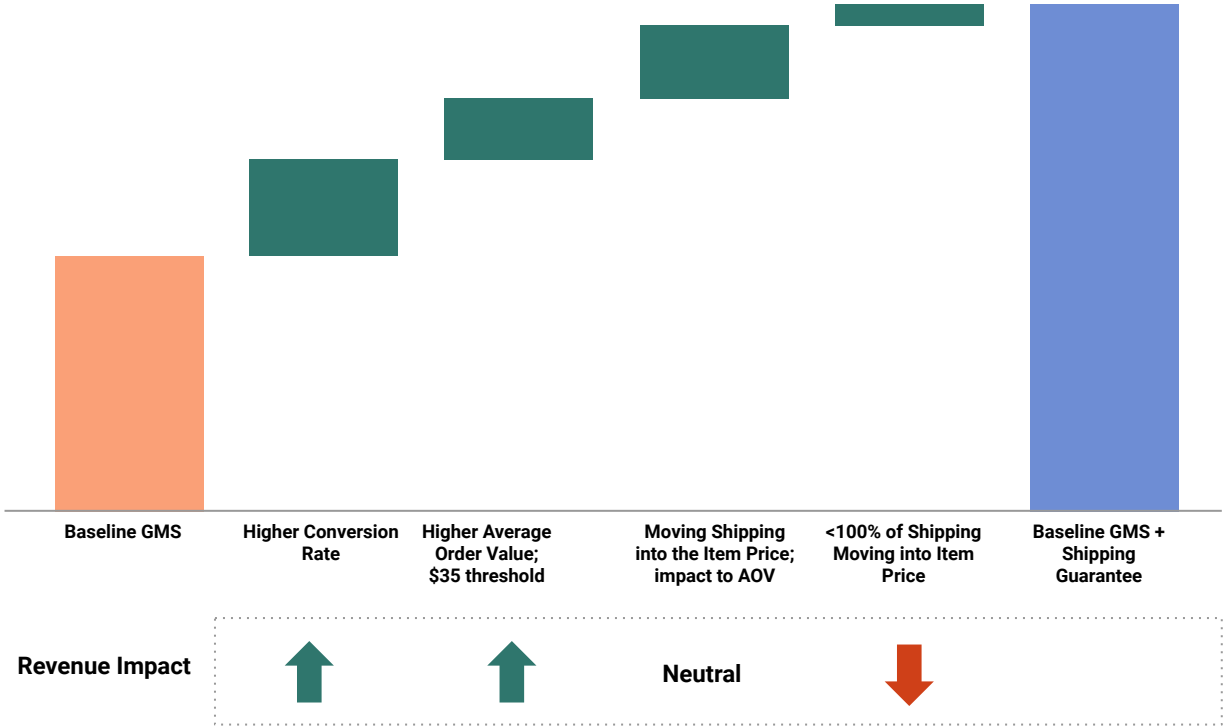
GMS per Active Buyer



Year-over-year growth	**0.6%**	**2.0%**	**2.2%**	**2.0%**	**1.3%**
2-year growth rate	**-0.9%**	**-0.4%**	**0.2%**	**1.0%**	**1.9%**

Free shipping initiative expected to drive higher GMS and Revenue

Scale for illustrative purposes only



Anticipated financial implications of new unified ad platform

	Near-term Impact	Future Impact	Explanation
1. GMS	Neutral	Increases	Higher budget utilization over time
2. Revenue	Increases	Increases	Google Shopping gross revenue impact, higher budget utilization
3. Cost of Revenue	Increases	Increases	Google Shopping pass through; dollar for dollar offset
4. Adj. EBITDA Margin	Decreases	Increases	Short term absorption of zero margin revenue. Longer term enables focus on higher funnel investments

2019 Guidance for GMS, Revenue and Adjusted EBITDA

	2019 Guidance May 8, 2019	2019 Guidance Aug 1, 2019
GMS ($) GMS Growth	~$4.6-$4.8B 18 - 21%	~$4.7-$4.8B 20 - 22%
Revenue ($) Revenue Growth	$785M-797M 30 - 32%	$797M-809M 32 - 34%
Adj. EBITDA Adj. EBITDA Margin*	~$182M-$198M 23 - 25%	~$177M-$193M 22 - 24%

*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. Etsy's revised 2019 guidance does not give effect to the contemplated Reverb acquisition.

Q&A

Appendix

Healthy targets for sustained growth

	2018 ACTUAL	2019 GUIDANCE[2]	5 YEAR TARGET[3]
GMS % GROWTH	20.8%	20-22%	16-20% on average, over time
REVENUE % GROWTH	36.8%	32-34%	Slightly faster than GMS
ADJ EBITDA MARGIN %[1]	23.1%	22-24%	30% or higher

[1]Based on the mid-point of 2019 revenue guidance. Reconciliation of non-GAAP financial measures is contained in the Appendix
[2]2019 Guidance was issued on 8/1/2019
[3]5 year targets were issued 3/7/2019
Key factors potentially impacting our updated 2019 guidance are contained in the Appendix
Does not contemplate pending purchase of Reverb

Condensed Consolidated Statement of Operations

	2Q19	2Q18
	(In thousands)	
Revenue	$181,095	$132,387
Cost of revenue	58,605	45,409
Gross profit	122,490	86,978
Marketing	45,994	28,941
Product development	28,765	23,568
General and administrative	29,883	21,707
Operating expenses	104,642	74,216
Income from operations	17,848	12,762
Other expense, net	(1,479)	(8,137)
Benefit (provision) for income taxes	1,854	(1,246)
Net income	$18,223	$3,379
Net income per share — diluted	$0.14	$0.03

We have a diversified revenue model consisting of mandatory fees and optional value-added services

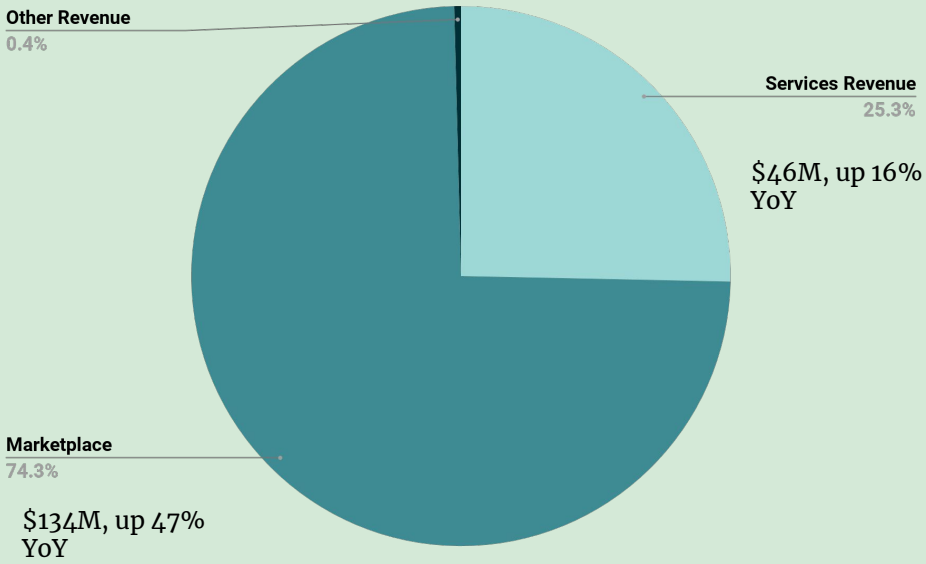
Marketplace Revenue

$.20 Listing Fee per item

Transaction Fee[1]

Etsy Payments
3-4.5% + flat fee

Q2 2019 Revenue $181M, up 37% YoY



Services Revenue
(Optional value-added services)

Promoted Listings

Etsy Shipping Labels

Pattern

Etsy Plus

[1]On July 16, 2018, we increased our seller transaction fee from 3.5% to 5%, and now apply it to the cost of shipping in addition to the cost of the item

*As of 6/30/2019

Key factors impacting our 2019 Guidance

Etsy's revised 2019 guidance does not give effect to the pending Reverb acquisition

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.
- Increase in GMS from our free shipping initiative.
- Increase in revenue from recording Google Shopping seller budgets as revenue following the launch of Etsy Ads. There is a corresponding dollar-for-dollar offset in cost of revenue for seller budget directed to Google Shopping. The impact from Etsy Ads will not have an impact on adjusted EBITDA but have a dampening impact on adjusted EBITDA margin.
- Continued currency-neutral growth in international GMS, which we expect to grow faster than overall GMS, driven by global product enhancements and marketing.
- We assume a stable macro environment. However, external factors 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, which excludes the impact of depreciation from the implementation of new lease accounting standards.
- We expect cloud costs to be higher than $25 million, most of which will be expensed through cost of revenue.
    - Additionally, during the migration, we are maintaining 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.

*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, 2018, and subsequent reports that we file with the Securities and Exchange Commission.

Condensed Consolidated Statement of Cash Flows

	2019*	2018*
	(in thousands)	
Net Income	**$49,802**	**$16,346**
Net cash provided by operating activities	*81,294*	*66,761*
Net cash used in investing activities	*(47,955)*	*(227,450)*
Net cash (used in) provided by financing activities	*(40,604)*	*206,514*
Effect of exchange rate changes on cash	(561)	(3,447)
Net (decrease) increase in cash, cash equivalents, and restricted cash	(7,826)	42,378
Cash, cash equivalents, and restricted cash at the beginning of the period	372,326	320,783
Cash, cash equivalents, and restricted cash at the end of the period	**$364,500**	**$363,161**

*Six months ended June 30, 2019 and 2018, respectively

Condensed Consolidated Balance Sheets

	2Q19	4Q18
	(in thousands)	
Cash and cash equivalents	$359,159	$366,985
Short-term investments	274,673	257,302
Accounts receivable, net	10,585	12,244
Property and equipment, net	128,409	120,179
Other current and non-current assets	248,949	145,141
Total assets	**$1,021,775**	**$901,851**
Accounts payable	$20,504	$26,545
Finance lease obligations, net of current portion	57,409	2,095
Facility financing obligation	-	59,991
Long-term debt, net	284,011	276,486
Other current and non-current liabilities	217,550	135,836
Total liabilities	**579,474**	**500,953**
Total stockholders' equity	**442,301**	**400,898**
Total liabilities and stockholders' equity	**$1,021,775**	**$901,851**

Reconciliation of Quarterly Net Income to Adj. EBITDA

	2Q19	2Q18
	(in thousands)	
Net income	$18,223	$3,379
Excluding:		
Interest and other non-operating expense, net	1,287	3,687
(Benefit) provision for income taxes	(1,854)	1,246
Depreciation and amortization	9,810	6,357
Stock-based compensation expense	10,837	8,617
Foreign exchange loss	192	4,450
Acquisition-related expenses	1,206	—
Restructuring and other exit income	—	(41)
Adjusted EBITDA	**$39,701**	**$27,695**