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Fiverr International, Ltd. (NYSE: FVRR)

Prepared Remarks

Q2 2020 Earnings Call

Management Discussion

Jinjin Qian

Vice President, Strategic Finance - Fiverr International, Ltd.

Thank you, operator, and good morning ladies and gentlemen. Thank you for joining us on Fiverr's earnings conference call for the second quarter ended June 30, 2020.

Please note that this call is being webcast on the investor relations section of the company's website. Full details of our results and additional management commentary are available in our shareholder letter which can be found on the investor relations section of our website at investors.fiverr.com.

Joining me on the call today are Micha Kaufman, Founder and CEO, and Ofer Katz, CFO. Before we start, I would like to remind you that certain matters discussed today are forward-looking statements that are subject to risks and uncertainties relating to future events and/or the future financial performance of Fiverr. Actual results could differ materially from those anticipated in these forward-looking statements.

Additional information that could cause actual results to differ from forward-looking statements can be found in Fiverr's periodic public filings with the U.S. Securities and Exchange Commission, including those factors discussed under the "Risk Factors" section in Fiverr's 20-F filed with the SEC. The forward-looking statements in this conference call are based on the current expectations as of today, and Fiverr assumes no obligation to update or revise them, whether as a result of new developments or otherwise.

And now, I will turn the call over to Micha.

Micha Kaufman

Chief Executive Officer & Director – Fiverr International, Ltd.

Good morning everyone and thanks for joining us on the call today. We hope that you are all keeping safe and healthy.

The past few months have been one of the most productive and rewarding times in our company's history. The strategies that we have put in place and our strong execution during the global pandemic is what has allowed us to achieve such an outstanding quarterly performance, with revenue growing 82% year over year to reach \$47.1 million. This is the strongest quarterly growth we have had since 2012, and over \$10 million dollars or nearly 30% above the top end of our guidance. With this stronger than anticipated top-line growth, we also achieved EBITDA profitability two years ahead of our expectation at the IPO, and many quarters ahead of our expectations as communicated just a few months ago.

While it is incredibly satisfying to see our business accelerate, it is equally rewarding to know that our success is a direct result of the success of our community. More and more businesses are transforming to digital-first using Fiverr, and more and more freelancers are provided with opportunities to generate income. It is an incredible privilege to be able to be there for our community in these challenging times.

During the second quarter, inclusion and diversity were brought to the forefront of discussions worldwide. At Fiverr - age, gender, ethnicity, or disabilities do not play a role in determining your success. You are judged only on the quality of your work. We take special pride in being one of the most inclusive and diverse communities online. We live by these principals 365 days a year and we are proud of the positive social impact our business is making on the lives of so many.

The outstanding Q2 results benefited from several strategies we have put in place. We stepped up the localization efforts at the beginning of the year, and since then have launched 5 non-English speaking websites and started to ramp local PR and performance marketing investments. We also streamlined internal operations on supply management in terms of catalog expansion, seller onboarding, as well as quality management. These investments turned out to be timely when Covid-19 hit, as we were able to respond to the global trends in remote work and digital transformation much more effectively.

These efforts also resulted in a significant increase in brand searches, Fiverr's share of voice and strong uplift in Fiverr's brand awareness, which led to an 80% year over year

increase in overall organic traffic. When COVID-19 hit, we quickly responded in several ways. We leaned in on performance marketing opportunities, investing more dollars with better tROI and marketing efficiency, and acquiring higher lifetime value buyers. Strong trends of both organic and paid channels resulted in a record level of net adds of active buyers on our marketplace. We've also seen existing cohorts spending more during the past few months. On average, existing cohorts grew monthly GMV levels by 10% from January to June this year, and we expect the elevated spend level to continue into the third quarter.

We are super happy with our Q2 execution and I am incredibly proud of our team for their focus, dedication and amazing creativity. That said, I am even more excited about what's ahead of us. The inflection point on the adoption of remote work - which many of you have asked us about in the past - is within sight. The awareness, openness, and emphasis on remote work and digital transformation has taken a multi-year leap for the entire business community. And for us, what will Fiverr look like 5 years down the road - another question we often hear - is now clearer than ever. There are three key components when we envision taking Fiverr to the next level.

First, a path to going upmarket for both supply and demand on our marketplace. On the buyer side, not only is Fiverr relevant for entrepreneurs, individual contributors and office heroes, but we will become a working hub for teams inside companies and businesses to collaborate with external resources, integrated into their day-to-day workflows. On the seller side, not only is Fiverr an important channel for freelancers and individual talent, but we will also become partners and distribution channels for agencies, consultancies and other service providers.

- With this in mind, we launched Fiverr Business in Beta - a dedicated environment for businesses and teams to transact and collaborate on Fiverr. This is going to be a long-term investment for us and we are just at the very beginning.
- We also acquired a boutique digital marketing agency recently, and with that, onboarded Ms. Sharon Lee, to help us drive the agency upmarket initiatives on the supply side. Not only is Sharon a domain expert in our target agency market,

she is also a heavy Fiverr user and an avid Fiverr community leader. Many of you may have seen her picture on our NYC marketing campaigns last year.

Second, we are building a global brand with a global footprint, global share of voice and a global business. Our investments in localization and into non-English websites have proved to be very timely. It is more apparent than ever that the need for remote work and digital transformation is global and that the potential market outside of English speaking countries is huge. We believe international expansion will continue to be a key strategy for Fiverr going forward.

Third, we are building Fiverr not only as a transaction platform, but an ecosystem for businesses and freelancers to grow and thrive. You've seen us launch Fiverr Learn, an e-learning module on Fiverr; You've seen us acquire and expand and.co, a back-office tool for freelancers to manage their contracting and invoicing; You've seen us introduce Promoted Gigs, an advertising tool that allows sellers to step up their marketing; and, you've also seen us integrate collaboration tools such as Zoom into our marketplace. We are also building financial tools to help freelancers get early payouts on their earnings. These are just a few examples of value-added services that we've started to work on and there are many more in the pipeline.

While the development of COVID-19 and the global macro conditions remain highly uncertain, the data we have seen on our marketplace across cohorts, verticals, and geographies over the past few months indicate that the elevated spending trends on digital transformation are going to stay for months, if not for years. What has also become clearer over the past few months is that the global pandemic has fundamentally changed how businesses reach their customers and how work takes place, and these changes will last far beyond the pandemic itself.

We have built our business from day one to promote remote work, to enable digital transformation, and to create a leveled playing field for every talent - and these opportunities have been pushed forward and are now more relevant than ever. We believe we are well-positioned to take advantage of these opportunities with our vision, strategy, and strong execution ability. And now, with becoming profitable, also more resources to put in place to drive towards these opportunities.

On that note, I'm going to turn it over to Ofer who will share a few Q2 highlights as well as some color for the rest of this year. Ofer?

Ofer Katz

Chief Financial Officer – Fiverr International, Ltd.

Thank you Micha and good morning everyone.

The past few months have been very exciting for our business. In Q2, revenue grew 82% year over year to \$47.1 million. The revenue growth is the strongest we have ever seen since 2012. We benefited from the global trends towards remote work and digital transformation, but more importantly, the strategies that we put in place and the strong execution of those strategies is what allowed us to capitalize on the tailwinds.

During the quarter, active buyers achieved a record level of net adds, reaching a total of 2.8 million, driven by strong trends on both organic and paid channels, as Micha highlighted earlier. tROI for the quarter was slightly above 1.0x, an improvement from Q1. We were able to remain highly efficient in our use of marketing dollars and at the same time expanding our sales and marketing expenses by about \$5 million from Q1.

Spend per buyer was \$184, an increase of 18% year over year, driven by both new and existing cohorts. As businesses accelerated their pace in investing in digital transformation, we have seen older cohorts grow their monthly GMV level on average by 10% since the beginning of the year. We expect their spend to remain at this elevated level going forward. On the other hand, we continue to expand the lifetime value of our new cohorts as we target buyers with bigger budgets and bigger businesses.

Take rate for Q2 was 27%, improving 60 basis points year over year, driven by an increased revenue mix from value-added services such as Fiverr Learn, And.Co and ClearVoice. When compared sequentially with Q1, take rate was down modestly by 10 basis points. This is mainly due to the exceptional growth of our core marketplace compared to these value-added services. Note that the core marketplace take rate remains stable at 25%, and our fee structure for buyers and sellers continues to be

uniform across transaction size, geography and categories. As the mix of core vs. non-core services on our platform fluctuates, the blended take rate may also modestly fluctuate.

We continued our global expansion efforts - non-English speaking markets continued to increase contribution to our marketplace, led by Germany, Austria and France with three digit growth rates during the quarter. We've also seen strong trends across all verticals, led by Programming & Tech with three-digit growth rate driven by strength around e-commerce and website development. We are also pleased to see our existing cohorts expand their spend level over the past few months as they turn to our marketplace when they need digitizing their business, and more services through remote arrangement. This speaks to the strength and loyalty of our cohort base. Not only does it generate a consistent stream of revenue for a very long time, but it also has the potential to grow with the overall market trends.

We achieved an important milestone in reaching EBITDA profitability in Q2, significantly ahead of our expectations. Q2 EBITDA was \$3.1 million, representing EBITDA margin of 6.7%. While we believe we will remain profitable at this revenue level, our priority continues to be driving revenue growth. Therefore, we intend to continue to invest in our product development roadmap and marketing initiatives, and by being profitable, we can make those investments on a more aggressive timeline.

During the quarter, we became more aggressive in buyer acquisition as we saw attractive opportunities in performance marketing - not only did we invest more, we were able to do so with better efficiency. We noticed that the investments we made in localization was timely, and the pandemic was driving countries around the world to come to Fiverr, so we doubled down during the quarter, accelerating the pace of opening new countries and adding Italy and Netherlands to our portfolio. We also saw a surging amount of sellers coming to our platform as we became one of their primary sources of income - that included individual freelancers as well as boutique agencies. As a result, we decided to push forward the agency investments on our roadmap, made a strategic acquisition, and began building out a dedicated team and a concrete

roadmap for the agency initiatives. These are just a few examples, and we have many more in the pipeline but they are too early to talk about at this point.

All of these efforts took place in just a short few months as our business accelerated from a 40-percent grower to an 80-percent grower and reached profitability, and as we saw the fundamental changes that COVID-19 has brought to the overall business community. The speed of which we are responding to the change of our business profile and to the inflection point of our industry, speaks to the clear vision and strong execution ability of our company. As we said many times before, the majority of our growth is still ahead of us, and we will continue to invest our incremental dollars into product and marketing to drive growth of the business.

Looking forward, while the long-term impact of COVID-19 remains highly uncertain, we are confident to provide strong Q3 guidance and also significantly raise our full year guidance. The strength of our existing cohorts and the confidence of these cohorts sustaining at an elevated level of spending, sets a strong baseline for our guidance. In addition, we expect the attractive window of investing in performance marketing to remain open and we expect to continue investing with high efficiency. We also expect to invest aggressively in product and marketing to drive long-term initiatives as I mentioned before. With all of that in mind, we expect Q3 revenue to be in the range of \$48.0 to \$49.0 million, representing year over year growth of 72% to 76%. Adjusted EBITDA for Q3 is expected to be \$2.0 to \$3.0 million, representing 5.2% of revenue at midpoint. We are raising full year revenue guidance to \$177.5 to \$179.5 million, or 66% to 68% year over year growth, up from prior guidance of \$145.5 to \$147.5 million or 36% - 38% year over year growth. We are increasing full year EBITDA guidance to positive \$4.5 to \$6.5 million, up from prior guidance of negative \$9 to negative \$7 million.

With that, I will now turn the call over to the operator for questions. Operator?