

fiverr

Q3 | 2019

Shareholder Letter

Gilad Japhet, Buyer
Founder and CEO, MyHeritage



Our Mission

Changing How the World Works Together

Fiverr is a global marketplace that connects buyers and sellers for digital services.



Mijal Zagier,
Seller

Logo and Brand Designer

Mijal is an award-winning graphic designer. Before joining Fiverr, she enjoyed a 14-year career as a creative director and artist-in-residence for a prestigious list of agencies and foundations. After a few months, Mijal became a full-time seller on Fiverr. She enjoyed Fiverr's time and order management tools, flexibility of work and access to buyers across the world.

260+

orders completed

190+

customers served

\$250–\$1,975

service prices

“I do exactly the work I love to do, manage my hours, and get compensated really well! I can't imagine going back to an office ever again.”



The Game Agency,
Buyer

Game Developers for eLearning & Training

Founded in 2007, The Game Agency (“TGA”) is an award-winning software development company that creates custom games and SaaS platforms for corporate training and loyalty programs for Fortune 500 clients. TGA turned to Fiverr for its quick and high-quality services in promotional videos, animation and art design used in their client pitch materials.

5

categories

7

countries ordered from

\$5–\$450

prices of orders placed

“What I love most is not only the variety of talents and styles, but also the affordability of it and the level of service I received on Fiverr.”

Why Buyers and Sellers Choose Fiverr



Fast, convenient and transparent e-commerce experience for digital services



Expansive service catalog across 250+ categories in 8 verticals



No more unbillable hours and marketing efforts for freelancers



Briefing, collaboration, communication, revision, clear deliverables, payments and invoicing on one platform

Highlights

- Delivered another quarter of strong revenue growth of 42% y/y and significant progress on our path to profitability
- Active buyers growth accelerated for the third consecutive quarter this year, driven by consistent cohort performance and strong trends in traffic and conversion
- Continued to expand our catalog and deepen our relevance and market share among larger businesses with the launch of 4 industry stores in Gaming, E-commerce, Architecture and Politics
- Fiverr Studios is gaining traction with hundreds of freelancers now offering Studios Gigs® that are on average seven times bigger than an average Gig on Fiverr
- Continued strong growth momentum in Germany, with traffic to fiverr.de doubled from Q2 to Q3, driven by the successful execution of, and response to, our summer brand campaign in Berlin

Third Quarter 2019 Key Results

REVENUE

\$27.9 million

42% y/y growth

ACTIVE BUYERS⁽¹⁾

2.3 million

16% y/y growth

SPEND PER BUYER⁽¹⁾

\$163

15% y/y growth

TAKE RATE⁽¹⁾

26.6%

140 bps y/y improvement



GAAP GROSS MARGIN

79.0%

NON-GAAP GROSS MARGIN⁽¹⁾

80.8%

NET LOSS

(\$8.4) million

ADJUSTED EBITDA⁽¹⁾

(\$4.4) million

ADJUSTED EBITDA MARGIN⁽¹⁾

430 bps
y/y improvement

Guidance

	Q4 2019	FY 2019
REVENUE	\$28.0 - \$29.0 million	\$105.5 - \$106.5 million
y/y growth	35% - 40%	40% - 41%
ADJUSTED EBITDA	(\$4.3) - (\$3.5) million	(\$19.0) - (\$18.2) million

(1) See "Key Performance Metrics and Non-GAAP Financial Measure" for additional information regarding this and other non-GAAP metrics used in this release.

(2) One of the five bulls displayed in front of NYSE on the day of Fiverr's IPO, designed by a Fiverr seller.

To Our Shareholders,

We are pleased to report another period of strong growth and favorable operating trends for Fiverr. We achieved record revenue in Q3 of \$27.9 million, or 42% growth y/y, which was higher than our expectations, and continued improvements in operating leverage and adjusted EBITDA margin. We again posted strong performance across our key metrics, with active buyers increasing 16% y/y to 2.3 million, spend per buyer increasing \$6 to \$163 from Q2'19, and take rate improving 140 bps y/y to 26.6%. Our buyer cohorts continued to deliver consistent performance, with repeat buyers contributing 58% of revenue on our core marketplace, while our buyer acquisition investments maintained a highly efficient time to return on investment ("tROI"). Our results highlight strong execution across our business model as we continue to carve our path to profitability while capitalizing on the consistent and significant growth of the global freelance economy. Based on our results for the first nine months of 2019 and the strong momentum we see across our platform, we are raising our guidance for the year to 40-41% growth with continued progress towards profitability.

Growth Strategies and Recent Progress

Recent updates regarding our key growth drivers and progress made in each area as we continue to grow and capture market share are as follows:

#1 Bring new buyers onto the platform

In the twelve months ended September 30, 2019, active buyers grew 16% y/y to 2.3 million, representing the third consecutive quarter of accelerating growth. Strong results were driven by robust trends in traffic and conversion, consistent cohort behavior and continued performance marketing efficiency.

Our active buyers growth benefited from strong organic traffic trends as the investments we made in brand marketing, automation tools and the upgrade of our content management system paid off. The launch of four industry stores - Gaming,



On the cover:

GILAD JAPHET
Founder and CEO, MyHeritage

Gilad Japhet is the founder and CEO of MyHeritage, a leading online genealogy platform. Founded in 2003, MyHeritage's global platform provides sophisticated matching technologies, billions of international historical records, and at-home DNA tests to help people explore their family history and gain valuable health insights.

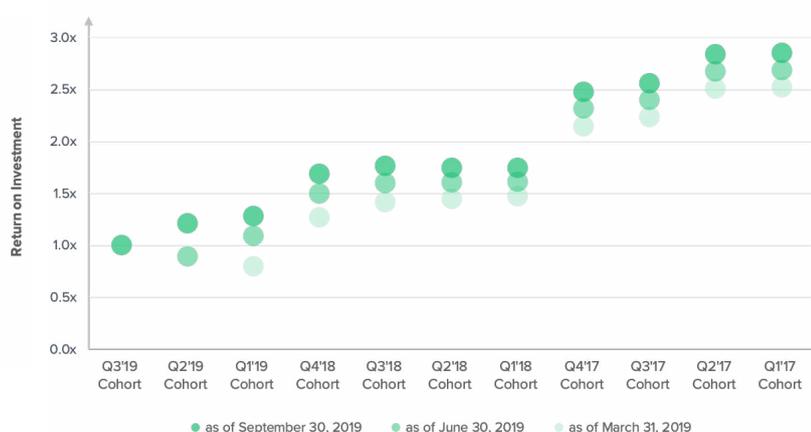
Gilad began using Fiverr in 2019 to enhance MyHeritage's offerings in innovative ways. He has hired 20 freelancers on Fiverr who completed 90 projects, with dozens more on the way. Impressed by the global access and efficiency of the platform, MyHeritage recently created a business account and started onboarding its marketing team. The marketing team is looking forward to taking advantage of Fiverr's fast, reliable, and cost-efficient solutions in areas such as video editing, animation, translation, voice-over, content writing and market research.

"Fiverr has become an important enabler for our business, allowing us to boost our product roadmap without slowing down our ongoing projects, at attractive costs. I am particularly impressed by the talent pool on Fiverr - you can find a top expert for almost any topic, and these people are hungry for work and hard-working. The Fiverr platform gives us the tools to manage the additional resources and put them to great use. We're using Fiverr increasingly across various departments in many digital service categories to achieve our goals and to find solutions to many of our needs."

E-commerce, Architecture and Politics - also helped drive SEO traffic, improve conversion and drive additional spending from cross-category purchases. Industry stores are also highly strategic in growing market share among larger businesses, as they can now browse and search for the most relevant services that other companies in their industries are purchasing on Fiverr.

We continue to benefit from the consistent behavior across all our annual cohorts. The cumulative revenue to performance marketing investment ratios, which measures the long-term efficiency of our paid marketing, continue to increase for all our cohorts, as reflected in the chart below.

CUMULATIVE REVENUE TO PERFORMANCE MARKETING INVESTMENT RATIOS



INCREASING ROI FOR MARKETING INVESTMENTS AS COHORTS SEASON OVER TIME

As of September 30, 2019, the cumulative revenue from the Q1'17 cohort has reached 2.9x of our performance marketing investments for the first quarter of 2017, up from 2.7x as of June 30, 2019.

Our paid marketing efforts continue to maintain highly efficient time to return on investment, or tROI, which measures the short-term efficiency of our paid marketing spend. As of September 30, 2019, revenue solely generated by our Q3'19 cohort enabled us to recover almost all of the performance marketing investments spent during the quarter. We continue to invest in channel diversification, with continued momentum driven by our affiliate and influencer programs. During the quarter, we also implemented an upgrade to our order attribution model that translated into expanded funnel optimization capability, which in turn led to better conversion.

Some additional activities during Q3'19 include:

- We partnered with Lilly Singh - comedian, actress, entrepreneur and NBC nighttime talk show host - to offer a limited edition creative consulting Gig on Fiverr Pro for female-led businesses to work under her creative direction on a digital ad.
- Arianna O'Dell, writer and featured contributor for Fast Company and the founder of Airlink Marketing, created



LILLY SINGH PARTNERSHIP

Lilly Singh (middle), together with director and filmmaker Oran Zegman (right) who is also a Fiverr seller, are helping Paola Castro (left), Founder of The Boob Company on her latest video commercial.

a seven-track album entirely on Fiverr with help from freelancers across the globe, including a vocalist from Connecticut, a producer from Arizona, a musician from Australia, and a graphic designer from California. The album is available on Spotify and Apple Music.

- We continued to grow our community by hosting 56 community events across 19 cities in six countries, including seven events co-hosted with General Assembly on topics such as freelance lifestyle, entrepreneurship, female leadership, and the latest industry trends.

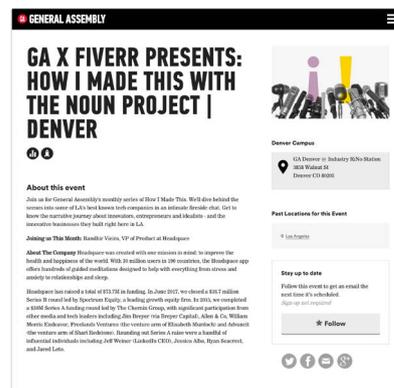
#2 Go upmarket

In the twelve months ended September 30, 2019, spend per buyer on our platform increased 15% y/y to \$163, demonstrating our continued progress in going upmarket. High-value buyers, those with annual spend per buyer of over \$500, continued to grow from the previous quarter and now represent over 52% of core marketplace revenues. Strong results were driven by our continued efforts in driving quality, repeat and cross-category purchases and our targeted marketing strategy, in addition to our strategic initiatives.

Fiverr Studios is gaining traction and is showing great early results. Since launch at the end of July, freelancers in over 50 countries have collaborated and created hundreds of studios, providing a range of bundled services to help businesses tackle bigger projects. One example is Ahmed Ideas, which offers an e-commerce package for Shopify stores that includes website design, payment gateway setup, back office integration, and one month of social media management. Another example is Branding Studio, which offers a business kickstarter package that includes logo design, business card, letterhead, envelope, and a social media kit. The average project size on Fiverr Studios is nearly seven times that of an average Gig on the marketplace.

In the near term, our focus remains on ramping Fiverr Studios supply. We continue to invest in areas such as adding tools to streamline the process of creating Gigs and finding members, pushing Gig recommendations to sellers leveraging demand insights, automatically populating pricing, and expanding exposure to additional sellers. We believe Fiverr Studios is a key, long-term initiative that will help us increase wallet share, grow market share among larger businesses, and ultimately expand our addressable market.

Our subscription based content marketing platform ClearVoice continued to grow at an exciting pace. During the quarter, the



COMMUNITY EVENT CO-HOSTED BY FIVERR AND GENERAL ASSEMBLY

Randhir Vieira, VP of Product at Headspace, did a fireside chat at a recent community event in Denver, CO. Over 100 people attended this event.

Studio

Our Studio Will build a shopify store, website and social media marketing

Ahmed Ideas Studio ★★★★★ 5.0 (2)

Premium	Standard	Basic
BASIC STORE SETUP		\$2,000
Ecommerce store setup with responsive design and 1 social media network		
🕒 29 Days Delivery 🔄 2 Revisions		
What's Included		Show All
E-Commerce Development: Full Website Creation ▼		
Social Media Marketing: Social Media Management ▲		
<ul style="list-style-type: none"> ✓ Full-Time Engagement ✓ 30 days of Social Media Management ✓ Schedule Posts ✓ Action Plan ✓ Page/Channel Evaluation 		
E-Commerce Development		
Continue (\$2,000)		

AHMED IDEAS STUDIO

A team of Shopify experts from Ahmed Ideas Studio offers an end-to-end e-commerce package via Fiverr Studios.

platform closed dozens of deals including companies in the Internet, fintech, and healthcare industries. The platform also saw improvement in its customer acquisition costs leveraging Fiverr's brand and marketing resources. We have created a dedicated ClearVoice Store to enable many freelancers on ClearVoice's platform to have access to Fiverr's global demand, and we've also seen a handful of ClearVoice's customers expand their spending by purchasing design and voice over Gigs on Fiverr in addition to their content marketing subscriptions. We believe there is tremendous potential in integrating the two platforms, and we expect to continue investing in this fast growing vertical.

#3 Expand our Gig catalog

Expanding our Gig catalog continues to be a top priority. By expanding both horizontally and vertically, we are able to continuously grow our addressable market, improve buyer experience and drive marketing efficiency.

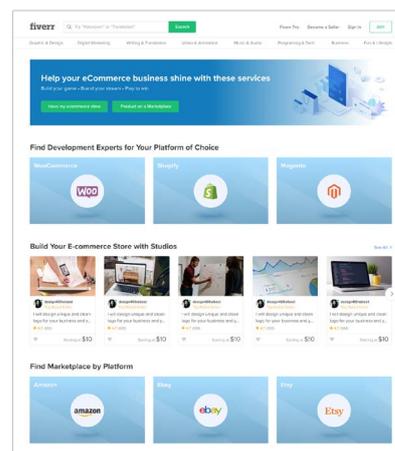
We launched four **industry stores** in recent months: Gaming, E-commerce, Architecture and Politics. Unlike the rest of the marketplace where Gigs are aggregated based on the types of service sellers provide, Gigs in industry stores are aggregated based on use cases that buyers need, thus providing a different browsing experience, increasing discoverability and growing our SEO assets. Moreover, by placing different types of services right next to each other, industry stores help drive additional cross-category purchasing. These four industry stores represent very large growth opportunities for Fiverr. We've seen encouraging early adoption trends in these stores driven by game developers and e-commerce merchants who have growing needs for digital services, and who are very used to getting them online.

We continued to add a number of new categories in Q3. Some of the most popular new categories were introduced along with the launch of the Architecture industry store, such as 3D modeling & rendering, 2D drawing & floor plans and virtual staging.

#4 Innovate technology and services

We constantly strive to innovate through technology. One area of focus is to reduce the friction associated with how businesses can search and find the best service from the vast range of supply we have on our platform.

Fiverr's Choice is one example of how we are tackling the problem, through which we direct our buyers to the most relevant and highest quality Gigs, leveraging dozens of proprietary



E-COMMERCE INDUSTRY STORE

Through the newly launched industry store, e-commerce business owners can now find development experts specific to their platforms such as Shopify, Magento, and Woocommerce. They can also find services to optimize their product listings tailored to their marketplace presence such as Amazon, eBay, and Etsy.

decision factors which we generate from our transaction database. It is not a paid product but a feature designed to benefit our buyers. Since launching in July, we've seen meaningful lift in buyer satisfaction across categories with Fiverr's Choice exposure and specifically the orders from Fiverr's Choice Gigs. We expect to expand Fiverr's Choice to more categories, roll it out on mobile, and add the badge exposure to additional pages.

Mobile continues to be a key investment area. In Q3, we continued to grow our mobile presence in both usage and revenue contribution. We made progress in a number of areas on our mobile app including custom offer order flow, onboarding and education, personalized content and recommendations, and integration of Google Pay for Android. As the Internet continues to evolve into a mobile-first environment, we believe mobile will continue to emerge as the device of choice for customers to explore, engage, and execute in their day-to-day operations.

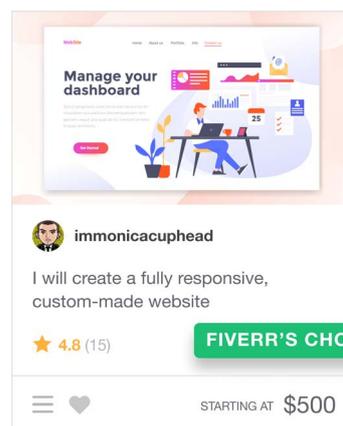
#5 Expand our geographic footprint

During Q3, we ran a hyper-local summer **brand campaign in Berlin** that was highly successful. During the eight-week period of the campaign, traffic to our German website [fiverr.de](https://www.fiverr.de) nearly doubled, and we saw a significant increase in both brand awareness and user registrations. Encouraged by these early trial results, we plan to roll out similar integrated campaigns in other cities across Germany and also see opportunities within other German-speaking countries.

We are also making meaningful progress towards full localization in a few markets. We are integrating the capability of supporting multiple languages on our platform and expect to launch two new languages in Q1'20.

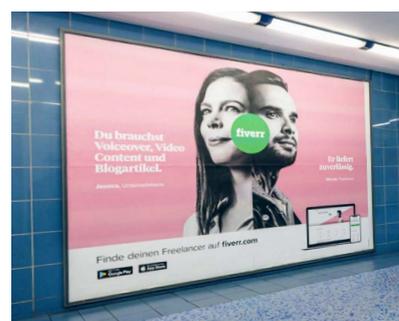
We also expanded our **cross-border payment capabilities** on the marketplace. Previously, we had introduced 11 foreign currencies in addition to USD, which buyers can use to pay for their purchases. In Q3, we expanded the pay-in capabilities to 11 additional currencies such as Indian Rupee and Mexican Peso. In addition, we further expanded it to address pay-out capabilities for sellers to withdraw funds in their preferred local currencies. Currently the pay-out capability is available in five currencies in addition to USD.

We believe that Fiverr is still in the very early stages of its international expansion, and we are leveraging our experience in Germany and other countries to build a repeatable playbook for future expansion.



FIVERR'S CHOICE

Fiverr's Choice recommends highly related Gigs that are trusted based on quality and delivery.



BRAND CAMPAIGN IN BERLIN

Our summer brand campaign in Berlin included out-of-home media, street promotions and digital ads.

Financial Discussion

Our third quarter 2019 results demonstrate strong top line growth and continued bottom line improvement. We grew revenue by 42% y/y, and our adjusted EBITDA margin improved by 430 bps compared to the third quarter of 2018. Unless otherwise noted, all comparisons are on a year-over-year basis.

Revenue

Revenue for Q3 was \$27.9 million, up 42% from \$19.7 million in Q3'18, driven by continued growth in both active buyers and spend per buyer. The year-over-year growth rate also benefits from the growth of our take rate, which grew to 26.6% for the 12 months ended September 30, 2019 from 25.2% for the 12 months ended September 30, 2018. Revenue during the quarter continued to be highly diversified, with no buyer contributing more than 1% of revenue, and no single category accounting for more than 15% of total revenue.

REVENUE
(\$ in millions)



Active buyers

Our active buyer base has consistently grown over time, and Q3 was no different. In Q3 2019 our active buyers reached 2.3 million, representing 16% y/y growth. Our robust active buyers growth was driven by consistent cohort behavior and efficient marketing investments. We also continue to focus on higher lifetime values by targeting buyers with larger budgets.

ACTIVE BUYERS
(in millions)



Spend per buyer

The second driver of our revenue growth is the annual spend per buyer, or SPB. In Q3 2019 SPB grew to \$163, up 15% y/y from \$141 in Q3'18. SPB is an indicator of our buyers' purchasing patterns and is impacted by the number of active buyers, buyers purchasing from multiple categories, average price per purchase, and our ability to acquire buyers with a higher lifetime value.

SPEND PER BUYER
(\$)



Take rate

For the 12 months ended September 30, 2019 our take rate was 26.6%, an increase of 140 bps y/y. We believe our industry-leading take rate reflects the value our platform delivers to both buyers and sellers. The increase in our take rate was driven by the continued growth of back-office software subscriptions, e-learning courses and content marketing subscriptions.

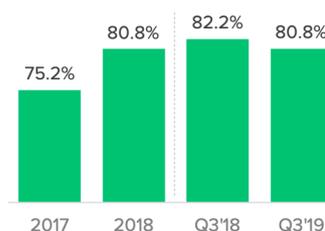
TAKE RATE
(LTM)



Gross Profit and Margin

Gross profit on a GAAP basis for Q3'19 was \$22.0 million, up 38.7% from \$15.9 million in Q3'18. Gross margin was 79%, down from 80.7% in Q3'18. Non-GAAP gross margin was 80.8% in Q3'19, decreasing 140 bps from 82.2% in Q3'18. The reduction in gross margin was primarily driven by the growth of our content marketing subscriptions business, which has higher take rate but lower gross margin compared to our overall marketplace.

GROSS MARGIN
(Non-GAAP)

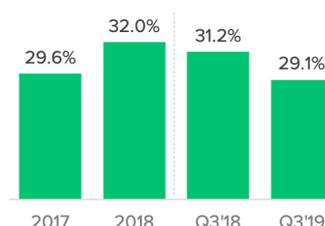


Operating Expenses

Total operating expenses on a GAAP basis were \$30.8 million, compared to \$23.2 million in the prior year period. Non-GAAP operating expenses were \$26.9 million, or 96.5% of revenue, compared to \$20.1 million, or 102.0% of revenue. The improvement in operating leverage represents greater efficiency as a result of our scale, disciplined expense control, and continued commitment towards achieving profitability, partially offset by increased accounting and expenses related to us operating as a public company.

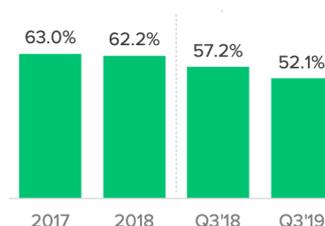
Research and development (R&D) expenses on a GAAP basis were \$9.1 million, or 32.6% of revenue, in the third quarter of 2019. Non-GAAP research and development expenses were \$8.1 million, or 29.1% of revenue, compared to 31.2% in the prior year period. We continue to invest in improving user experience such as Fiverr Choice, product innovations such as Fiverr Studios, mobile web and mobile app, category expansion, and international expansion.

RESEARCH AND DEVELOPMENT
(Non-GAAP, as % of revenue)



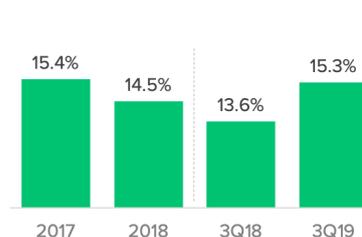
Sales and marketing (S&M) expenses were \$15.9 million, or 56.9% of revenue, on a GAAP basis and \$14.5 million, or 52.1% of revenue, on a non-GAAP basis in the third quarter of 2019, compared to 64.4% and 57.2%, respectively. We continued to gain significant sales and marketing leverage during the quarter driven by buyer conversion, channel diversification and continued strong execution, which demonstrates our ability to drive marketing efficiency at scale and our commitment to achieving profitability.

SALES AND MARKETING
(Non-GAAP, as % of revenue)



General and administrative (G&A) expenses were \$5.9 million, or 21.2% of revenue, on a GAAP basis and \$4.3 million, or 15.3% of revenue, on a non-GAAP basis in the third quarter of 2019, compared to 20.0% and 13.6%, respectively. The increase was due to increased accounting, legal and insurance related to being a public company.

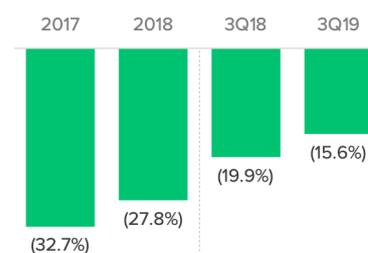
GENERAL AND ADMINISTRATIVE
(Non-GAAP, as % of revenue)



Net Loss and Adjusted EBITDA

Net loss on a GAAP basis for the quarter was \$(8.4) million, compared to \$(7.2) million in the prior year period. Adjusted EBITDA loss was \$(4.4) million, or (15.6%) of revenue, compared to \$(3.9) million or (19.9%) in Q3 2018. The improved EBITDA margin was driven primarily by improved leverage in R&D and S&M expenses, partially offset by increases in G&A expenses related to us operating as a public company. We are making steady progress on our path to profitability and continue to demonstrate cost discipline and Adjusted EBITDA leverage, as compared to last year.

ADJUSTED EBITDA MARGIN



Financial Outlook

Our guidance calls for significant revenue growth in 2019 along with improvements in our bottom-line results.

	Q4 2019	2019
REVENUE	\$28.0 - \$29.0 million	\$105.5 - \$106.5 million
y/y growth	35% - 40%	40% - 41%
ADJUSTED EBITDA	(\$4.3) - (\$3.5) million	(\$19.0) - (\$18.2) million

Closing

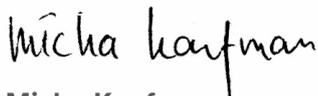
Fiverr posted strong financial results in Q3, and we are raising our guidance for the year. It's an extremely exciting time in the evolution of our service-as-a-product marketplace, with encouraging early indicators across the initiatives underlying our key growth drivers as we continue to innovate across the platform, attract more buyers, move upmarket, expand our category offerings and broaden our reach geographically. While we are steadfast in taking a balanced approach towards investments in growth and margin improvement, our performance during the third quarter is a good example of how the power of our business model and the multiple growth levers provide us with agility to further capitalize on various trends in our marketplace, as opportunities arise.

We are still in the very early stages of penetrating the massive opportunity that is in front of us, as the freelancer market for digital services continues to move online. Leveraging our technology platform, we continue to be focused on enhancing Fiverr's value proposition for both buyers and sellers, while constantly improving the user experience. As an e-commerce marketplace for digital services, we believe we are uniquely positioned within the global shift towards an on-demand, online and flexible workforce.

We look forward to finishing the year on a strong note and hope to see some of our investors at the UBS conference in New York on December 9th.

Welcome to the future of work.

Sincerely,



Micha Kaufman

Chief Executive Officer



Ofer Katz

Chief Financial Officer

Conference Call and Webcast Details

Fiverr's management will host a conference call to discuss its financial results on Wednesday, November 13, 2019 at 8:30 a.m. Eastern Time. A live webcast of the call can be accessed from Fiverr's [Investor Relations website](#). An archived version will be available on the website after the call. Investors and analysts can participate in the conference call by dialing (866) 270-1533, or (412) 317-0797 for callers outside the United States, and mention the passcode, "Fiverr." A telephonic replay of the conference call will be available until Wednesday, November 20, 2019, beginning one hour after the end of the conference call. To listen to the replay please dial (877) 344-7529, or (412) 317-0088 for callers outside the United States, and enter passcode 10135686.

CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 22,741	\$ 55,955
User funds	54,700	39,736
Bank deposits	20,000	-
Restricted deposit	310	327
Marketable securities	109,945	-
Other receivables	2,889	776
Total current assets	210,585	96,794
Property and equipment, net	5,418	5,143
Intangible assets, net	7,396	4,065
Goodwill	11,240	1,381
Restricted deposit	3,182	3,191
Other non-current assets	493	456
Total assets	\$ 238,314	\$ 111,030
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables	\$ 1,995	\$ 3,364
User accounts	54,700	39,736
Other account payables and accrued expenses	22,097	10,231
Current maturities of long-term loan	496	445
Total current liabilities	79,288	53,776
Long-term loan and other non-current liabilities	5,389	3,280
Total liabilities	84,677	57,056
Shareholders' equity:		
Share capital and additional paid-in capital	303,664	178,164
Accumulated deficit	(150,324)	(123,592)
Accumulated other comprehensive income (loss)	297	(598)
Total shareholders' equity	153,637	53,974
Total liabilities and shareholders' equity	\$ 238,314	\$ 111,030

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except loss per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Revenue	\$ 27,867	\$ 19,653	\$ 77,542	\$ 54,798
Cost of revenue	5,863	3,792	16,104	11,603
Gross profit	22,004	15,861	61,438	43,195
Operating expenses:				
Research and development	9,088	6,611	25,161	19,180
Sales and marketing	15,859	12,651	47,087	38,039
General and administrative	5,894	3,923	15,871	16,363
Total operating expenses	30,841	23,185	88,119	73,582
Operating loss	(8,837)	(7,324)	(26,681)	(30,387)
Financial income, net	483	84	687	209
Loss before income taxes	(8,354)	(7,240)	(25,994)	(30,178)
Income taxes	(80)	-	(106)	-
Net loss	(8,434)	(7,240)	(26,100)	(30,178)
Deemed dividend to protected ordinary shareholders	-	-	(632)	-
Net loss attributable to ordinary shareholders	(8,434)	(7,240)	(26,732)	(30,178)
Basic and diluted net loss per share attributable to ordinary shareholders	\$ (0.26)	\$ (1.10)	\$ (1.61)	\$ (4.63)
Basic and diluted weighted average ordinary shares	31,867	6,606	16,647	6,524

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Operating Activities				
Net loss	\$ (8,434)	\$ (7,240)	\$ (26,100)	\$ (30,178)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	961	586	2,678	1,641
Stock-based compensation	2,600	2,737	6,562	10,355
Net gain from exchange rate fluctuations	69	75	132	24
Changes in assets and liabilities:				
User funds	(4,697)	-	(14,964)	-
Other receivables	(60)	44	(1,351)	(689)
Trade payables	(2,386)	1,067	(1,510)	1,019
User accounts	4,697	1,977	14,964	8,495
Other account payables and accrued expenses	4,956	(1,319)	9,049	2,017
Amortization of discount on marketable securities	(558)	-	(558)	-
Non-current liabilities	167	10	62	194
Net cash used in operating activities	(2,685)	(2,063)	(11,036)	(7,122)
Investing Activities				
Acquisition of business, net of cash acquired	-	-	(9,967)	(2,676)
Purchase of property and equipment	(376)	(235)	(835)	(607)
Capitalization of internal-use software	(199)	(190)	(523)	(646)
Other receivables and non-current assets	111	143	(11)	(115)
Bank deposits	-	-	(20,000)	-
Restricted deposit	-	-	-	(60)
Investment in marketable securities	(34,961)	-	(144,352)	-
Proceeds from sale of marketable securities	34,997	-	34,997	-
Net cash used in investing activities	(428)	(282)	(140,691)	(4,104)
Financing Activities				
Proceeds from exercise of options	32	520	573	670
Proceeds from initial public offering, net	(3,155)	-	113,802	-
Proceeds from issuance of protected ordinary shares, net	-	-	4,340	-
Repayment of long-term loan	(119)	(111)	(347)	(327)
Net cash provided by (used in) financing activities	(3,242)	409	118,368	343
Effect of exchange rate fluctuations on cash and cash equivalents	(16)	(46)	145	(167)
Decrease in cash and cash equivalents	(6,371)	(1,982)	(33,214)	(11,050)
Cash and cash equivalents at the beginning of period	29,112	18,798	55,955	27,866
Cash and cash equivalents at the end of period	\$ 22,741	\$ 16,816	\$ 22,741	\$ 16,816

KEY PERFORMANCE METRICS

	Twelve Months Ended	
	September 30,	
	2019	2018
	(Unaudited)	
Annual active buyers (in thousands)	2,265	1,954
Annual spend per buyer (\$)	\$ 163	\$ 141

RECONCILIATION OF GAAP TO NON-GAAP GROSS PROFIT

(In thousands, except gross margin data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
GAAP gross profit	\$ 22,004	\$ 15,861	\$ 61,438	\$ 43,195
Add:				
Share-based compensation	43	2	93	7
Depreciation and amortization	479	282	1,335	811
Non-GAAP gross profit	<u>\$ 22,526</u>	<u>\$ 16,145</u>	<u>\$ 62,866</u>	<u>\$ 44,013</u>
Non-GAAP gross margin	<u>80.8%</u>	<u>82.2%</u>	<u>81.1%</u>	<u>80.3%</u>

RECONCILIATION OF GAAP TO NON-GAAP NET LOSS AND NET LOSS PER SHARE

(In thousands, except loss per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
GAAP net loss attributable to ordinary shareholders	\$ (8,434)	\$ (7,240)	\$ (26,732)	\$ (30,178)
Add:				
Deemed dividend to protected ordinary shareholders	-	-	632	-
Depreciation and amortization	961	586	2,678	1,641
Share-based compensation	2,600	2,737	6,562	10,355
Other initial public offering related expenses	-	-	416	-
Contingent consideration revaluation and acquisition related costs	918	95	2,364	1,468
Non-GAAP net loss	<u>(3,955)</u>	<u>(3,822)</u>	<u>(14,080)</u>	<u>(16,714)</u>
GAAP weighted average number of ordinary shares outstanding - basic and diluted	31,867	6,606	16,647	6,524
Add:				
Additional weighted average shares giving effect to exchange of protected ordinary shares at the beginning of the period	-	16,144	11,426	16,138
Non-GAAP basic and diluted weighted average ordinary shares	<u>31,867</u>	<u>22,750</u>	<u>28,073</u>	<u>22,662</u>
Non-GAAP basic and diluted net loss per share attributable to ordinary shareholders	<u>\$ (0.12)</u>	<u>\$ (0.17)</u>	<u>\$ (0.50)</u>	<u>\$ (0.74)</u>

Note: Non-GAAP basic and diluted net loss per ordinary share for the nine months ended September 30, 2019 were calculated based on ordinary shares outstanding after accounting for the exchange of Fiverr's then outstanding protected ordinary shares into 18.7 million ordinary shares as though such event had occurred at the beginning of the periods. In the same calculation for the three and nine months ended September 30, 2018, we accounted for the exchange of Fiverr's then outstanding protected ordinary shares into 16.1 million ordinary shares at the beginning of the periods.

RECONCILIATION OF GAAP NET LOSS TO ADJUSTED EBITDA

(in thousands, except adjusted EBITDA margin data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
GAAP net loss	\$ (8,434)	\$ (7,240)	\$ (26,100)	\$ (30,178)
Add:				
Financial income, net	(483)	(84)	(687)	(209)
Income taxes	80	-	106	-
Depreciation and amortization	961	586	2,678	1,641
Share-based compensation	2,600	2,737	6,562	10,355
Other initial public offering related expenses	-	-	416	-
Contingent consideration revaluation and acquisition related costs	918	95	2,364	1,468
Adjusted EBITDA	<u>\$ (4,358)</u>	<u>\$ (3,906)</u>	<u>\$ (14,661)</u>	<u>\$ (16,923)</u>
Adjusted EBITDA margin	<u>(15.6%)</u>	<u>(19.9%)</u>	<u>(18.9%)</u>	<u>(30.9%)</u>

RECONCILIATION OF GAAP TO NON-GAAP OPERATING EXPENSES

(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
GAAP research and development	\$ 9,088	\$ 6,611	\$ 25,161	\$ 19,180
Less:				
Share-based compensation	850	314	2,386	533
Depreciation and amortization	116	113	328	316
Acquisition related costs	12	48	106	702
Non-GAAP research and development	<u>\$ 8,110</u>	<u>\$ 6,136</u>	<u>\$ 22,341</u>	<u>\$ 17,629</u>
GAAP sales and marketing	\$ 15,859	\$ 12,651	\$ 47,087	\$ 38,039
Less:				
Share-based compensation	642	1,217	1,365	1,354
Depreciation and amortization	323	152	887	400
Acquisition related costs	375	47	1,073	701
Non-GAAP sales and marketing	<u>\$ 14,519</u>	<u>\$ 11,235</u>	<u>\$ 43,762</u>	<u>\$ 35,584</u>
GAAP general and administrative	\$ 5,894	\$ 3,923	\$ 15,871	\$ 16,363
Less:				
Share-based compensation	1,065	1,204	2,718	8,461
Depreciation and amortization	43	39	128	114
Other initial public offering related expenses	-	-	416	-
Contingent consideration revaluation and acquisition related costs	531	-	1,185	65
Non-GAAP general and administrative	<u>\$ 4,255</u>	<u>\$ 2,680</u>	<u>\$ 11,424</u>	<u>\$ 7,723</u>

Key Performance Metrics and Non-GAAP Financial Measures

This shareholder letter includes certain key performance metrics and financial measures not based on GAAP, including Adjusted EBITDA, Adjusted EBITDA margin, Non-GAAP gross profit, Non-GAAP gross margin, Non-GAAP operating expenses, Non-GAAP net loss and Non-GAAP net loss per share as well as operating metrics, including GMV, active buyers, spend per buyer, take rate and tROI.

We define GMV or Gross Merchandise Value as the total value of transactions through our platforms, excluding value added tax, goods and services tax, service chargebacks and refunds. Active buyers on any given date is defined as buyers who have ordered a Gig on Fiverr within the last 12-month period, irrespective of cancellations. Spend per buyer on any given date is calculated by dividing our GMV within the last 12-month period by the number of active buyers as of such date. Take rate is revenue for any such period divided by GMV for the same period.

We define tROI or Time to Return On Investment as the number of months required to recover performance marketing investments during a particular period of time from the revenue generated by the new buyers acquired during that period. We use tROI to measure the efficiency of our buyer acquisition strategy. Performance marketing investments in new buyer acquisition is determined by aggregating online advertising spend across various channels, including search engine optimization, search engine marketing, video and social media used for buyer acquisition. Our performance marketing investments exclude certain fixed costs, including out of home advertising and fixed labor costs. Our performance marketing investment differs from sales and marketing expenses presented in accordance with GAAP and should not be considered as an alternative to sales and marketing expenses. Our performance marketing investment has limitations as an analytical tool, including that it does not reflect certain expenditures necessary to the operation of our business, and should not be considered in isolation. Certain fixed costs are excluded from performance marketing investments and related tROI calculations because performance marketing investments represent our direct variable costs related to buyer acquisition and its corresponding revenue generation. tROI measures the efficiency of such variable marketing investments and is an indicator actively used by management to make day-to-day operational decisions.

Management and our board of directors use these metrics as supplemental measures of our performance that is not required by, or presented in accordance with GAAP because they assist us in comparing our operating performance on a consistent basis, as they remove the impact of items not directly resulting from our core operations. We also use these metrics for planning purposes, including the preparation of our internal annual operating budget and financial projections, to evaluate the performance and effectiveness of our strategic initiatives and to evaluate our capacity to and capital expenditures and expand our business.

Adjusted EBITDA, Adjusted EBITDA margin, Non-GAAP gross profit, Non-GAAP gross margin, Non-GAAP operating expenses, Non-GAAP net loss and Non-GAAP net loss per share as well as operating metrics, including GMV, active buyers, spend per buyer, take rate and tROI should not be considered in isolation, as an alternative to, or superior to net loss, revenue, cash flows or other performance measure derived in accordance with GAAP. These metrics are frequently used by analysts, investors and other interested parties to evaluate companies in our industry. Management believes that the presentation of non-GAAP metrics is an appropriate measure of operating performance because they eliminate the impact of expenses that do not relate directly to the performance of our underlying business.

These non-GAAP metrics should not be construed as an inference that our future results will be unaffected by unusual or other items. Additionally, Adjusted EBITDA and other non-GAAP metrics used herein are not intended to be a measure of free cash flow for management's discretionary use, as they do not reflect our tax payments and certain other cash costs that may recur in the future, including, among other things, cash requirements for costs to replace assets being depreciated and amortized. Management compensates for these limitations by relying on our GAAP results in addition to using Adjusted EBITDA and other non-GAAP metrics as supplemental measures of our performance. Our measure of Adjusted EBITDA and other non-GAAP metrics used herein is not necessarily comparable to similarly titled captions of other companies due to different methods of calculation.

We are not able to provide a reconciliation of Adjusted EBITDA guidance for the fourth quarter of 2019 or the fiscal year 2019 to net loss, the comparable GAAP measure, because certain items that are excluded from Adjusted EBITDA cannot be reasonably predicted or are not in our control. In particular, we are unable to forecast the timing or magnitude of share based compensation, amortization of intangible assets and gain or loss on revaluation of contingent consideration, as applicable without unreasonable efforts, and these items could significantly impact, either individually or in the aggregate, net loss in the future.

See the tables of above regarding reconciliations of these non-GAAP measures to the most directly comparable GAAP measures.

Forward Looking Statements

This shareholder letter contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this shareholder letter that do not relate to matters of historical fact should be considered forward-looking statements, including, without limitation, statements regarding our expected financial performance and operational performance for the fourth quarter of 2019, and the fiscal year ended December 31, 2019, as well as statements that include the words “expect,” “intend,” “plan,” “believe,” “project,” “forecast,” “estimate,” “may,” “should,” “anticipate” and similar statements of a future or forward-looking nature. These forward-looking statements are based on management’s current expectations. These statements are neither promises nor guarantees, but involve known and unknown risks, uncertainties and other important factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including, but not limited to: our ability to attract and retain a large community of buyers and freelancers; our ability to achieve profitability; our ability to maintain and enhance our brand; our dependence on the continued growth and expansion of the market for freelancers and the services they offer; our ability to maintain user engagement on our website and to maintain and improve the quality of our platform; our dependence on the interoperability of our platform with mobile operating systems that we do not control; our ability and the ability of third parties to protect our users’ personal or other data from a security breach and to comply with laws and regulations relating to consumer data privacy and data protection; our ability to detect errors, defects or disruptions in our platform; our ability to comply with the terms of underlying licenses of open source software components on our platform; our ability to expand into markets outside the United States; our ability to achieve desired operating margins; our compliance with a wide variety of U.S. and international laws and regulations; our ability to protect our intellectual property rights and to successfully halt the operations of copycat websites or misappropriation of data; our reliance on Amazon Web Services; our ability to mitigate payment and fraud risks; our dependence on relationships with payment partners, banks and disbursement partners; our dependence on our senior management and our ability to attract new talent; and the other important factors discussed under the caption “Risk Factors” in our final prospectus under Rule 424(b) filed with the U.S. Securities and Exchange Commission (“SEC”) on June 12, 2019 in connection with our initial public offering as such factors may be updated from time to time in our other filings with the SEC, which are accessible on the SEC’s website at www.sec.gov. In addition, 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 its 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 that we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this release are inherently uncertain and may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Accordingly, you should not rely upon forward-looking statements as predictions of future events. In addition, the forward-looking statements made in this release relate only to events or information as of the date on which the statements are made in this release. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.