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Fiverr International, Ltd. (NYSE: FVRR)

Prepared Remarks

Q3 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 third quarter ended September 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 are excited to deliver another quarter of record-setting growth, as revenue, active buyers, and spend per buyer all further accelerated from the prior quarter. Revenue

grew 88% year-over-year, active buyers grew 37% year-over-year to over 3.1 million, and spend per buyer increased 20% year-over-year to \$195. Our success underscores the tremendous growth potential of our business. This is supported by a large and mainly untapped addressable global market, our strong business model that's highly efficient and scalable, as well as industry tailwinds towards remote work and digital transformation.

The velocity of our growth matters, but it's the quality of our buyers and the efficiency of how we attract those buyers that give us confidence in driving long-term sustainable growth in the business.

- Spend per buyer jumped \$11 sequentially from Q2 to Q3, the largest quarter-over-quarter improvement we have experienced, even as we added over 310K new buyers during the quarter.
- High-value buyers, those who spend over \$500 annually, now represent over 57% of core marketplace revenue, up from over 55% in Q2 2020.
- We saw a strong increase in spend per buyer across all our annual cohorts, as buyer spend level remained elevated since the peak of the COVID-19 pandemic.
- We are further encouraged by our Q2 2020 cohort that reached a cumulative ROI of 1.5x after only two quarters, which is slightly ahead of a typical cohort. This gives us confidence in the quality of the new buyers that we are attracting since the outbreak of COVID-19 as well as confidence to continue investing aggressively in marketing.

Strong momentum in both organic and paid channels continued in Q3. We continued to drive the majority of our new buyers from organic channels, and tROI for performance marketing remained above 1x for the quarter. Our brand investments continue to pay off, as seen by our Google brand traffic that has more than doubled year over year. The perception of Fiverr as a leading voice in digital services and remote work is also gaining momentum. We were very excited to launch an evolution of Fiverr's brand identity during the quarter, with a new look and feel to our logo, fonts, color and a new brand language. We continue to place our community of buyers and sellers at the heart of our brand, and with the new branding, we strive to be even more inclusive as we

grow our marketplace, to be increasingly seen as a strategic partner for businesses of all sizes to go digital, and to be more socially responsible as we spearhead the change in the future of work. Brand remains a key investment area for us going forward.

Over the last few months, we have continued to make exciting progress towards our key strategic initiatives: that is going upmarket, international expansion, and expanding Promoted Gigs.

- Fiverr Business was officially launched in September, after running a beta with select partners. We introduced a brand-new onboarding flow and started to make top-of-the-funnel marketing investments in both awareness and acquisition. One of the major value propositions for Fiverr Business is to allow us to land more buyers with our initial touchpoints within larger organizations, and we are encouraged by the fact that nearly 50% of new registrations so far have invited other members to join their Fiverr Business account.
- We are also launching a new user experience to allow buyers and sellers to break large projects into milestones, or incremental steps. Not only do these features enable sellers to receive payments for their work faster, but it also gives buyers more flexibility in purchasing - especially when it comes to large ticket size items and when they are buying from a new seller that they've never worked with before. We will also introduce features that will allow buyers to make recurring purchases - these are especially relevant when it comes to ongoing digital investments such as SEO or content marketing. You can expect us to continue rolling out products like these for both buyers and sellers as we continue to move upmarket.
- In Q3, we continued to execute on international expansion. Our 6th non-English website was introduced in Portuguese allowing us to expand our country presence into Portugal and Brazil. We also integrated with a local payment solution provider in Brazil to streamline the local payment experience. On the marketing front, we continued to ramp up our performance marketing infrastructure across international regions, expanded our Affiliate program in Germany and France, and added localized Affiliate dashboards in 5 languages.

What we see is that Affiliate programs work extremely well in the international markets in a similar way to the U.S. markets in terms of efficiency and scalability.

- Last but not least, an update on Promoted Gigs. Promoted Gigs now cover 60 categories. This is a significant step-up from 15 categories since Q2 2020. You can now see ad listings not only on category pages for those 60 categories, but also nearly 10,000 search queries that are associated with those categories. In addition, we deployed open enrollment for sellers in those categories - as long as they meet the published quality criteria. As a result, monthly active sellers in the program grew to over 5,000 at the end of September, a significant increase from just under 200 at the end of June.

2020 has certainly been an eventful and highly productive year at Fiverr. Over the past ten years, we have built the world's largest marketplace for freelancers with a proprietary digital service catalog, a sophisticated matching, quality and liquidity engine powered by a decade of transaction data, a highly efficient and scalable marketing infrastructure, a global brand and a global community with millions of buyers and sellers. These allowed us to execute and grow with tremendous momentum in 2020 and expand our leadership position during a time when businesses and freelancers needed us the most in terms of digital transformation and income opportunities.

We are excited to be in a position to finish out the year strong, and even more excited about what lies ahead in 2021. We are currently developing our 2021 roadmap and as we deepen our efforts in bold strategic areas and plan towards many others, we expect to continue our momentum into next year and set ourselves up for a great 2021 and beyond.

With that, I'm going to turn the call over to Ofer who will share a few financial highlights with you. Ofer?

Ofer Katz

Chief Financial Officer – Fiverr International, Ltd.

Thank you Micha and good morning everyone.

As Micha mentioned, we are very happy to deliver another quarter of outstanding results. In the third quarter, revenue grew 88% year-over-year to \$52.3 million, an acceleration from 82% year-over-year growth in Q2, as our disciplined investments in product and marketing continued to help us capitalize on the industry tailwind. Adjusted EBITDA was \$4.2 million, representing Adjusted EBITDA margin of 8%, an expansion from 6.7% in Q2. We were able to continue investing aggressively in sales and marketing to support growth, and at the same time maintain high levels of discipline and efficiency.

I'd like to share some more details on the underlying drivers for revenue growth. Active buyers grew 37% year-over-year to over 3.1 million, as the momentum for both organic and paid channels from Q2 continued into Q3. We saw a modest rebound of the overall performance marketing environment during the quarter, but still very attractive compared to pre-COVID-19 levels. As a result, tROI for the quarter remained at slightly above 1x. Looking ahead, we expect the window for marketing investments to remain open for the rest of the year.

In addition, we plan to continue investing in brand and brand campaigns - as Micha mentioned, we have seen continued growth and value in investing in our brand. This is manifested in both organic traffic and overall brand perception. Looking ahead to 2021, we expect significant investments in brand campaigns in Q1 to continue building on top of our momentum in 2020.

Spend per buyer experienced one of the strongest quarter-over-quarter gains in Q3. This was driven by strong cohort behavior across the board. As mentioned last quarter, all annual cohorts experienced a step function increase in terms of monthly spend level, and in Q3, we see spend for all cohorts remained at this elevated level. As COVID-19 fundamentally changed how businesses think about and invest in digital channels, we do expect to see these spend levels on our marketplace to sustain into the future. As such, we expect spend per buyer to continue enjoying the impact from this step-up cohort behavior until it laps annually.

Q3 take rate was 27.0%, similar to last quarter, and we expect it to remain consistent with the potential to grow in the long run as we continue to make progress on value-added service offerings in our pipeline.

Looking ahead, we are raising revenue guidance for full year 2020 to the range of \$186 - \$187 million, up from our prior guidance of \$177.5 - \$179.5 million. The updated revenue guidance represents 2020 revenue growth of 74% - 75%. We expect full year adjusted EBITDA to be in the range of \$8.5 - \$9.0 million, up from prior guidance of \$4.5 - \$6.5 million. For Q4, revenue is expected to be \$52.4 - \$53.4 million, representing year-over-year growth of 77% - 81%. Adjusted EBITDA is expected to be \$4.0 - \$4.5 million, representing 8% of adjusted EBITDA margin at midpoint. I'd like to point out a few considerations regarding our adjusted EBITDA trend going forward. First, revenue growth continues to be our top priority and we will not shy away from investments that help us increase market share and continue to grow aggressively. Second, while we expect to continue driving adjusted EBITDA efficiency on an annual level, there will be fluctuation from quarter to quarter. Typically, Q4 is a seasonally strong quarter for EBITDA margin, followed by Q1, a typically weaker quarter for EBITDA margin as we invest for the rest of the year.

In addition to strong financial results, we are also very pleased to close our first convertible bond transaction a few weeks ago. We raised \$460 million including greenshoe that is priced at a 0% coupon and a 40% conversion premium. This raise provides us with additional liquidity for organic growth and opportunistic acquisitions. We will continue to be prudent with capital, by investing efficiently to grow the business, while generating operating leverage towards our long-term operating model.

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