fiverr

Q2 | 2019
Shareholder Letter

Morgan Sliff, Seller

Copywriter
Hermosa Beach, CA

Photo Credit: Clay Larsen

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
catagories

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

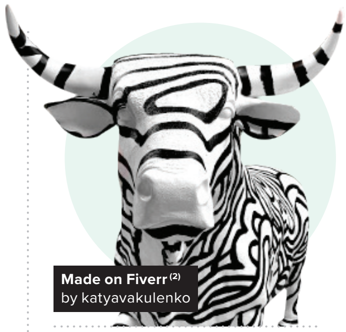
- Fast, convenient and transparent e-commerce experience for digital services
- Expansive service catalog across 250+ categories in 8 verticals
- No more unbillable hours and marketing efforts for freelancers
- Briefing, collaboration, communication, revision, clear deliverables, payments and invoicing on one platform

Highlights

- Strong growth continued in Q2 2019 with revenue up 41% year over year, while achieving significant improvement in operating leverage.
- We added approximately 30 new categories during the quarter and launched our first industry dedicated store for gaming related digital services.
- We introduced Fiverr Studios late in July, a transformative product that enables freelancers to collaborate and provide complex offerings with cross-category deliverables.
- We continued executing on international expansion, with Germany now growing significantly faster than our overall marketplace. We also continued to expand our currency capabilities by rolling out additional payment options for our international buyers.

Second Quarter 2019 Key Results

REVENUE	ACTIVE BUYERS[1]	SPEND PER BUYER[1]	TAKE RATE[1]
$25.9 million	**2.2 million**	**$157**	**26.4%**
41% y/y growth	14% y/y growth	16% y/y growth	170 bps y/y improvement



Made on Fiverr[2] by katyavakulenko

GAAP GROSS MARGIN	NON-GAAP GROSS MARGIN[1]	NET LOSS	ADJUSTED EBITDA[1]	ADJUSTED EBITDA MARGIN[1]
79.5%	**81.4%**	**($9.4) million**	**($4.9) million**	**1,130 bps**
				y/y improvement

Guidance

	Q3 2019	FY 2019
REVENUE	$25.5 - $26.5 million	$101.5 - $103.5 million
y/y growth	30% - 35%	34% - 37%
ADJUSTED EBITDA	($6.0) - ($5.0) million	($21.5) - ($20.5) million

(1) See "Key Performance Metrics and Non-GAAP Financial Measure" for additional information.
(2) One of the five bulls displayed in front of NYSE on the day of Fiverr's IPO, designed by a Fiverr seller.

My fellow shareholders,

It's a pleasure to write our first quarterly shareholder letter as a public company. Fiverr delivered another strong quarter of growth, achieving record revenue of $25.9 million or 41% growth y/y and significant improvements in operating leverage and adjusted EBITDA margin. We also delivered strong performance in our key metrics with active buyers increasing 14% y/y to 2.2 million, spend per buyer increasing 16% y/y to $157 and take rate improving 170 bps to 26.4%. Our buyer cohorts continued to deliver consistent performance with repeat buyers contributing 58% of revenue on our core marketplace. We maintained the payback period of our buyer acquisition investments, or tROI ("Time to Return On Investment"), to be under 7 months. Our results demonstrate the power of our business model and our ability to balance investments in growth and margin improvement to drive long-term and sustainable growth for many years ahead.

Each quarter we plan to keep you updated on our progress. We are using the shareholder letter format to provide details that you can read in advance, leaving more time on our quarterly earnings calls for Q&A. As part of our first shareholder letter as a public company, we have included a Fiverr 101 section to outline our mission, our market opportunity, our technology platform, our business model and our marketing strategies. An understanding of these helps create a framework for the discussion of recent business updates and Q2 financial performance in the sections following.

Fiverr 101

Fiverr's mission is to change how the world works together.

Fiverr was founded in 2010 by entrepreneurs who had extensive experience working with freelancers and who had witnessed first-hand how challenging the process can be. To solve these, we've pioneered a **Service-as-a-Product ("SaaP")** model to create an on-demand, e-commerce-like experience that makes working with freelancers as easy as buying something on Amazon.

On the cover:

MORGAN SLIFF, SELLER
COPYWRITER
HERMOSA BEACH, CA

Morgan is a Southern California based wordsmith. Her Gigs on Fiverr focus on blog posts and web content that help businesses build brand voice and improve SEO ranking. Her favorite topics to write include science and technology, finance, travel, and fashion.

Morgan joined Fiverr in December 2017. She is a successful graduate from Fiverr's Rising Talent program which helps talented sellers such as Morgan to quickly grow and establish a reputation on the marketplace. Eight months into her Fiverr journey, Morgan progressed further into a Top Rated Seller. To date, Morgan has over 230 reviews with a 5-star rating. She has completed over 300 orders, worked with over 140 clients, and made over $40K.

"By chance, I happened upon Fiverr with a quick Google search. I fleshed out a quick profile and pieced together a rather hilarious 50-second video detailing my experience and the importance of a website owner's SEO. About a week later, I got my first inquiry. Not long after that, I had my first order. A few 5-star reviews later I had a few messages a day."

"This platform is such an incredible financial opportunity - one could have the potential to work full-time, and have a business managed, solely via Fiverr."

Our unique approach fundamentally changes the way businesses and freelancers work with each other.

For businesses:

- Finding the right talent, negotiating and contracting used to be a slow, difficult, and costly process; on Fiverr, it's a seamless and intuitive browse, search, and click to order experience, with transparency and certainty on price, duration, and scope of work.
- Traditionally gaining good references and trust is hard and unreliable; on Fiverr, each Gig® shows its transaction history, reviews, and a past work portfolio.

For freelancers:

- Fiverr's unique e-commerce platform provides freelancers with direct access to the global demand from buyers.
- Instead of spending a large part of their time and effort marketing and bidding on projects, Fiverr brings them customers without any effort on the freelancers' part.
- Once an order is placed, Fiverr provides freelancers with all of the backoffice tools necessary for them to manage and run their business in the most efficient manner.

Fiverr's digital freelancer marketplace allows us to address a massive market opportunity.

The estimated United States freelancer market is $750B annually and we estimate that our current addressable market in the U.S. alone is over $100B, which will continue to increase as we launch new categories. Fiverr is in over 160 countries, yet approximately 70% of revenue today is generated from English-speaking countries. We believe the shift to an on-demand, online, and flexible workforce is a long-term global trend and international expansion presents a very large opportunity for our future growth.

Technology is at the heart of everything we do at Fiverr.

Our technology platform has evolved and advanced significantly over time to support our rapid growth and increasing scale.

OUR VALUE TO BUYERS

- Transparency and certainty of price, scope of work and quality and speed
- Value for money
- Access to an expansive catalog of digital services
- Access to a diverse pool of freelancers
- Trusted brand for customer service

Buyer NPS: **61**

OUR VALUE TO SELLERS

- No bidding / negotiation to win projects
- Maximize deal-flow
- Flexibility and control
- Frictionless payment and business support
- Credentialed storefront
- Success management and support

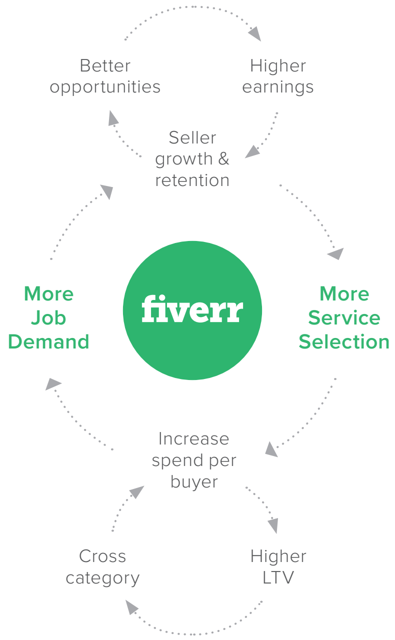
Seller NPS: **65**

We estimate that our current addressable market in the U.S. alone is over $100B.

- Our digital service **catalog infrastructure** has grown from 8 categories back in 2010 to an expansive catalog of over 250 categories from logo design and voice-overs, to our latest categories of 3D product animation and desktop and mobile game creation in Q2 2019. Recently, we have also rolled out a few cross-category Fiverr Stores to address specific industry use cases.
- We have developed a proprietary **liquidity management** system, putting **9 years of transaction and behavioral data** to use, allowing us to match buyers and sellers at the Gig level in a personalized fashion. This takes into account many data points such as budget style, design taste, and purchase patterns.
- We have developed a comprehensive set of **rating and reputation, scoring, and leveling systems** and continue to iterate and enhance our machine learning algorithm to improve the quality of Gigs and sellers on our platform.
- We continue to develop new features and tools to provide value to our buyers and sellers in areas such as **payments, communication, collaboration, and automation.** Some recent developments include the rollout of foreign currency capabilities, a partnership with Zoom for video conferencing, and the most recent - Fiverr Studios.

FLYWHEEL EFFECT

Our marketplace model benefits from a powerful flywheel effect.



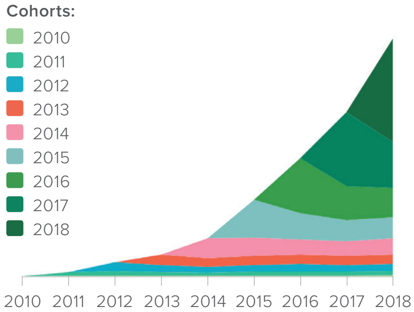
Our business model is simple and straightforward.

We generate revenue primarily through transaction-based fees. When an order is placed, buyers pay Fiverr the Gig price plus a 5% service fee with a minimum service fee of $2; upon successful completion of an order, Fiverr makes 80% of the Gig price available to the seller of the Gig.

As a marketplace, we succeed when our buyers and sellers succeed. Our marketplace model benefits from a **powerful flywheel effect**: as more buyers join our marketplace, they bring in more jobs which in turn drives more demand for our sellers. This attracts more sellers to join our platform, who will list more service offerings which in turn gives our buyers more selection, better quality, and more value for their money, which leads to more repeat and more cross-category purchases.

CONSISTENT COHORT BEHAVIOR WITH MAJORITY OF REVENUE FROM REPEAT BUYERS

Revenue composition by annual cohort 2010-2018



We have enjoyed **strong and consistent behavior across all our annual buyer cohorts.** As shown in the figure on the side, the aggregate spend of each cohort stabilizes after the first year and continues to contribute to a consistent stream of revenue from the second year onwards. For the first half of 2019, we have continued to see consistent behavior across our 2010-2018 cohorts, and the new 2019 cohort presents a similar pattern as those from prior years. We believe that this consistent cohort behavior provides us with revenue visibility and predictability.

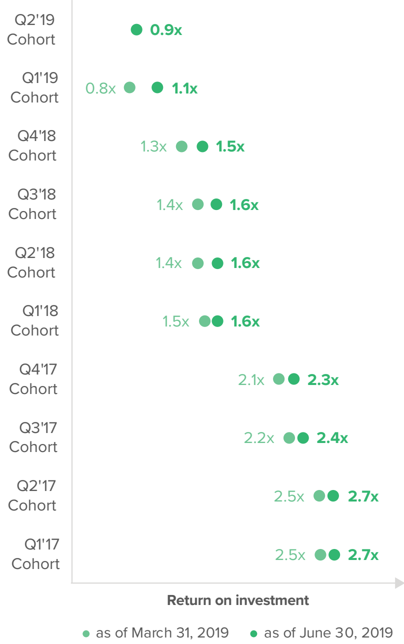
We have adopted a bottom-up approach in our marketing strategy that does not require a sales force.

We target individuals who work in various business functions at companies of different sizes across many industries: the kind of "office heroes" who just get things done — within their deadline and budget constraints.

The majority of our new buyers are acquired from non-paid, organic sources. That is complemented by highly effective performance marketing and brand investments across a variety of channels. Our performance marketing spend on buyer acquisition is highly disciplined and efficient, governed by time to return on investment, or tROI. Over the past 2 years, we have consistently achieved tROI of less than seven months. Our performance marketing investments are seasonal and we typically see the highest investment in the first quarter of each year to match the spending pattern of businesses as well as to drive growth throughout the year.

INCREASING ROI FOR MARKETING INVESTMENTS AS COHORTS SEASON OVER TIME

Cumulative revenue to performance marketing investment ratios by cohort



As of June 30, 2019, the cumulative revenue from the Q1'17 cohort has reached 2.7x of our performance marketing investments for the second quarter of 2017, up from 2.5x as of March 31, 2019.

Growth Strategies and Recent Progress

Each quarter we intend to update you on our key growth drivers and progress made in each area as we continue to grow our business.

#1 Bring new buyers onto the platform

Our first strategy is to continue adding new buyers and growing our active buyer base. During Q2, active buyers increased 14% y/y to 2.2 million. The growth in our active buyer base is driven by continued engagement from our existing buyer cohorts as well as our robust buyer acquisition strategy.

In the twelve months ended June 30, 2019, repeat buyers contributed 58% of total revenue on our core marketplace, up from 57% in 2018. Cumulative revenue to performance marketing investment ratios continued to increase across all our buyer cohorts as they continued to generate revenue streams in a consistent manner. For example, as of June 30, 2019, the cumulative revenue from the Q1’17 cohort has reached 2.7x of our performance marketing investments for the second quarter of 2017, up from 2.5x from a quarter ago.

We continued to acquire the majority of our new buyers from organic, non-paid channels, complemented by efficient performance marketing and brand investments. As can be seen from the performance marketing ROI chart, as of June 30, 2019, we had already generated revenue from the Q2’19 cohort that enables us to recover 90% of the performance marketing investments we spent during the quarter. We are able to sustain our performance marketing efficiency at an increasing scale due to our ability to improve conversion rate through funnel optimization and personalization, diversify marketing channels, and drive marketing automation.

Some additional activities in Q2 include:

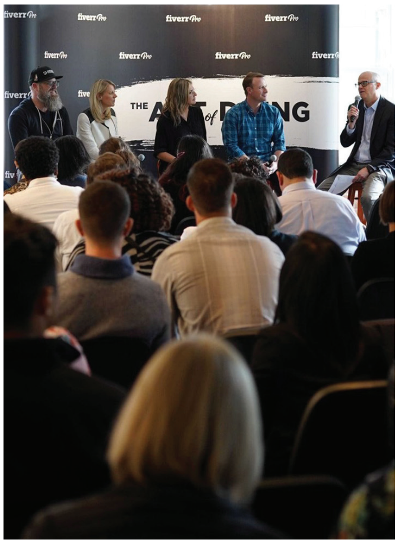
- We upgraded our content management system in order to drive more engaging and personalized content throughout the customer journey in a faster and more efficient way.
- We refreshed and updated our affiliate website earlier this year and have since expanded the program and the team for this channel. Our affiliate program has been growing significantly this year.
- We continued to ramp up our influencer marketing channel and continued our work with influencers and domain experts like film director, Eli Roth and comedian, Lilly Singh.
- We also held a Fiverr brand activation with buyers and sellers in the iconic London Eye.
- During the quarter, we continued to grow our community by hosting 32 community events across 19 cities, including a full-day conference in Chicago which was our biggest community event to date.

#2 Go upmarket

Going upmarket by increasing overall lifetime value of our buyers continues to be one of our key priorities. In the twelve months ended June 30, 2019, spend per buyer on our platform increased to $157, an increase of 16% compared to the previous year. High-value buyers, those with annual spend per buyer of over $500, continued to grow from last quarter and contributed more than 50% of our revenues.

LONDON EYE

We designed and converted a pod from the London Eye into a co-working space for freelancers.



‘THE ART OF DOING’, CHICAGO CONFERENCE

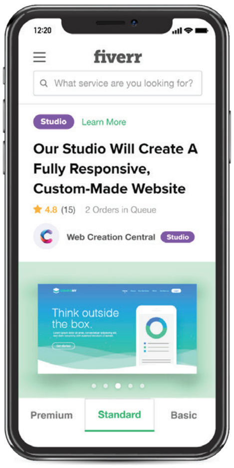
The event had over 300 attendees in the bubbling tech district of the West Loop. The event included 3 insightful panels filled with speakers from Chicago’s top names in tech, VC, startup, Fortune 500’s and even government, including an appearance by the Deputy Mayor of Chicago.

Our strategy is to increase overall lifetime value of our buyers through the following areas:

- Continuously improve the quality of Gigs in our catalog.
- Provide better recommendations to buyers seeking higher value services.
- Grow repeat and cross category purchases.
- Develop additional tools and features to increase engagement and improve buyer experience.
- Deploy targeted marketing campaigns to attract higher quality buyers.

Our results demonstrate that our strategy to go upmarket is working.

We recently announced the launch of **Fiverr Studios**, a transformative product which allows freelancers a new way to collaborate and offer larger and more complex projects to businesses around the world. Fiverr freelancers can now form virtual teams or “Studios” to create projects combining their different skills and experience across different verticals. For buyers, they get the same fast and seamless experience that they have come to expect from Fiverr’s e-commerce model, with a single point of contact, a single brief, a single fixed price, and transparency on scope of work, delivery time, and price.



FIVERR STUDIOS

Fiverr freelancers can now form virtual teams or “Studios” to create projects combining their different skills and experience across different verticals.

In February 2019, we acquired subscription based content marketing platform, **ClearVoice**, Inc., which targets medium to large-sized businesses. The acquisition allows us to expand our market share in one of the fastest growing categories and is highly synergistic for both companies. On one hand, Fiverr can leverage ClearVoice’s product portfolio to provide a more tailored experience to our buyers based on their needs and budgets. On the other hand, ClearVoice is able to cross-sell to its existing customers on categories beyond content marketing, such as design and illustration services. During Q2, ClearVoice delivered robust growth and added a number of large enterprise brands and expanded revenue with several existing enterprise customers.

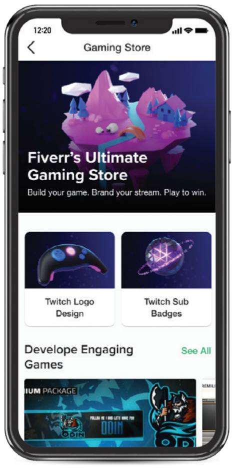
CLEARVOICE

Earlier this year, we acquired subscription based content marketing platform, ClearVoice, which targets medium to large-sized businesses. The acquisition allows us to expand our market share in one of the fastest growing categories and is highly synergistic for both companies.

#3 Expand our Gig catalog

Our robust Gig catalog of over 250 categories is a critical competitive advantage for us and drives repeat and cross-category purchases. Expanding our Gig catalog, both horizontally and vertically, continues to be a top priority. Horizontal expansion allows us to increase our addressable market and provide buyers with digital services that were previously not available on Fiverr. Vertical expansion adds depth to our catalog and often involves splitting an existing category into more granular categories, which enables a faster and more personalized matching experience for our buyers and in turn expands our market share in those categories.

In Q2, we added approximately 30 new categories such as product research, 3D product animation, and brand style guides. We've also experienced encouraging growth in several of the new categories that were opened in Q1 such as ghostwriting, lead generation and podcasts. In addition, we introduced our first dedicated industry store for gaming-related digital services to support this burgeoning industry. Customers can now purchase high quality services in 30 categories related specifically to the gaming industry such as character modeling, game writing and trailers from skilled developers, designers and videographers.



GAMING STORE

Customers can now purchase high quality services in 30 categories related specifically to the gaming industry.

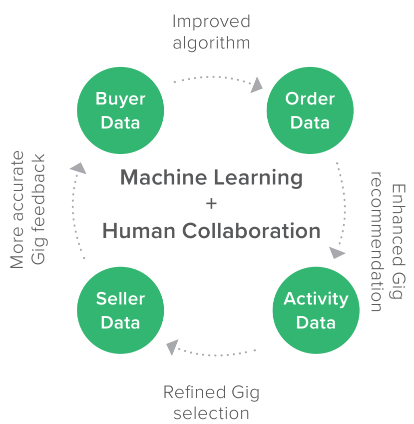
Fiverr Stores has been an efficient way for us to create a verticalized experience that aggregates the most relevant and high quality Gigs for buyers from certain industries with specific use cases. Buyers with vague search terms in the relevant industries can now be directed to a personalized Fiverr Store page, leading to a hybrid search and browse experience that results in the best matching experience. Store pages also enable Gigs across different verticals to be next to each other, which in turn drives cross-category purchases. Our recently upgraded content management system significantly improved efficiency and flexibility, and enabled our category management team to synchronize data and publish content onto store pages. We expect to continue generating new stores and adding new features and content to our existing stores in the coming quarters.

#4 Innovate technology and services

Technology is at the heart of everything we do at Fiverr and we challenge ourselves every day to find smarter applications for technology to make the lives of our community members better. Our proprietary machine learning technology and expansive data sets allow us to personalize experiences for both buyers and sellers. For example, we are able to anticipate buyers' future needs based on their buying behavior and provide category and service recommendations.

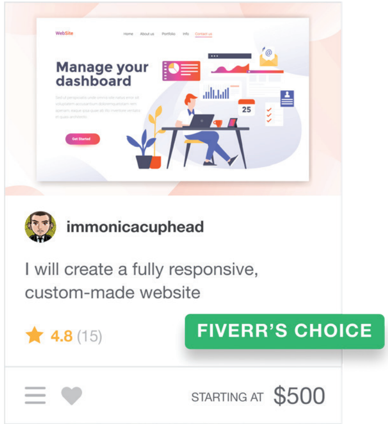
TECHNOLOGY AT CORE

Our proprietary machine learning technology and expansive data sets allow us to personalize experiences for both buyers and sellers.



In Q1 of this year, we introduced and implemented a new quality metric internally that provides a more holistic approach to identify sub-optimal user experiences. During Q2, we took a step further and developed predictive technology that identifies, in real-time, the likelihood of a "missed order". With these data science models, we are able to take more precise actions such as removing low quality supply as well as proactively following up with customers to resolve issues, in turn delivering a better experience to our users. This has driven measurable improvements to our business through areas such as declining order cancellations.

In July, we rolled out the **Fiverr's Choice badge** in our search listing pages. Due to the large selection of Gigs and sellers on Fiverr's platform, buyers sometimes face challenges in deciding which Gig or seller to pick. Fiverr's Choice recommends highly relevant Gigs that are recommended based on quality and delivery. We curate Fiverr's Choice Gigs through a combination of internal quality indicators, customer feedback, as well as a manual vetting process in some cases. While it is still in its early stages and we continue to test and refine the product, early signs show improvements in conversion and retention among buyers who are exposed to Fiverr's Choice Gigs.

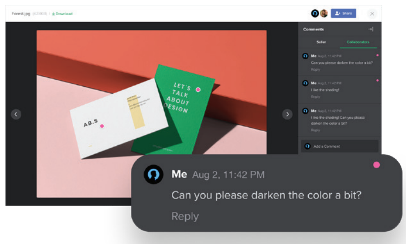


FIVERR'S CHOICE

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

Mobile is very important to us and during Q2 we continued to expand our mobile capabilities. During the quarter, we added content management system integration for mobile, which lays the foundation for ultra-fast content publishing and is essential for creating personalized browsing experiences on mobile, as well as pushing real-time differentiated content to the mobile homepage. In Q2, both the usage of mobile apps and revenue contribution from mobile continued to grow.

Collaboration tools are another area of focus for us in terms of R&D investments. During the quarter, we added the ability to include annotations to comments and edits when collaborating on a shared file. The feature is well received as it allows users to be more accurate with their feedback and in turn more efficient. We also expanded the capability to allow users to share files with external users such as their colleagues and friends who are not yet on Fiverr. Not only does this improve user experience, it also serves as an additional organic channel for brand awareness and buyer acquisition.



COLLABORATION TOOLS

During the quarter, we added the ability to include annotations to comments and edits when collaborating on a shared file.

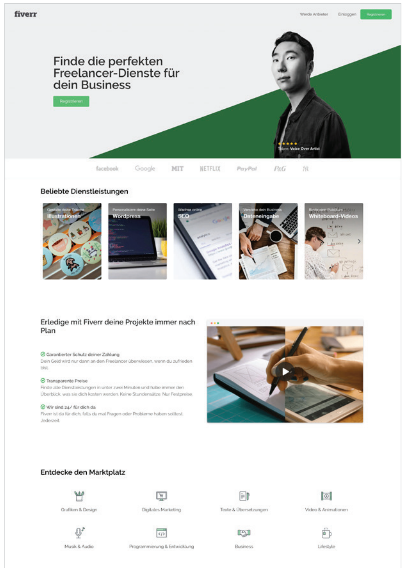
We have a robust product roadmap. One of our key focus areas in the coming quarters is to develop additional products that enhance the business tools on our platform. Business tools are designed for buyer teams to collaborate and share resources on Fiverr, and we've seen that teams who take advantage of these tools present meaningfully enhanced engagement. We have also started planting seeds on some groundbreaking seller tools that enable them to take advantage of machine learning technologies that are traditionally only available to large agencies and corporations. These are just a few examples of what we are working on and what keeps us excited every day at Fiverr. And we can’t wait to tell you more in our future shareholder letters.

#5 Expand our geographic footprint

Earlier this year we successfully launched a German language homepage, fiverr.de, together with a number of digital and out-of-home campaigns that were adapted to the German market. While our activity in Germany is still in its infancy, these initial localization initiatives have already enabled us to acquire German-speaking buyers more efficiently and is rapidly expanding our international presence. This strategy is another tool we have to drive buyer acquisition organically. We are disciplined in our geographical expansion efforts and intend to test and refine our localization strategy as we focus on Germany. Once we have a proven playbook from Germany, we aim to replicate these principles in other markets where we see significant opportunity.

During the second quarter, we also added additional payment capabilities and buyers on our platform can now pay in 11 currencies in addition to USD. We also added the Euro as a default payment option for buyers in 18 European countries, including Denmark, Poland, and Romania, which builds awareness and adoption rate of our currency product among users. In the coming quarters, we expect to continue expanding our currency capabilities to allow sellers withdraw funds in different currencies.

Expanding into multiple langauge and accepting multiple currencies, combined with customizing our marketplace to meet local needs and preferences, will drive awareness and adoption of our platform as we target buyers and sellers around the world.



LAUNCH OF FIVERR.DE

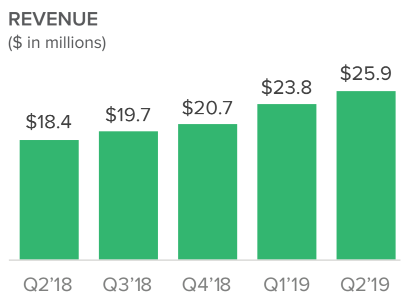
We successfully launched a German language homepage, fiverr.de, together with a number of digital and out-of-home campaigns that were adapted to the German market. Germany is one of the fastest growing markets on our platform.

Financial Discussion

Our Q2 2019 results demonstrate strong top line growth and continued bottom line improvement. We grew revenue by 41% and our adjusted EBITDA margin improved by 1,130 bps compared to the second quarter of 2018. Unless otherwise noted, all comparisons are on a year over year basis.

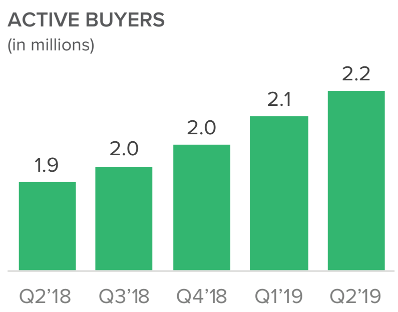
Revenue

Revenue for Q2 was $25.9 million, up 41% from $18.4 million, driven by continued growth in both active buyers and spend per buyer. The y/y growth rate also benefits from the growth of our take rate, which grew from 24.7% for the 12 months ended June 30, 2018 to 26.4% for the 12 months ended June 30, 2019. 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 our total revenue.



Active buyers

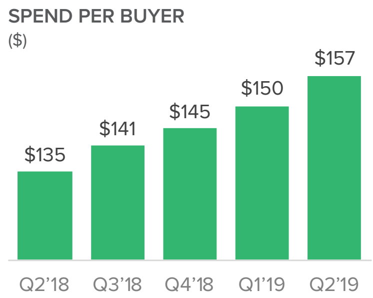
Our active buyer base has consistently grown over time. In Q2 2019 our active buyers reached 2.2 million representing 14% year over year growth. We continue to grow our active buyers at a robust pace, driven by consistent cohort behavior and efficient marketing investments. We also continue to focus on higher lifetime values by targeting buyers with larger budgets.



The majority of our revenue comes from our existing buyers. While a buyer's first purchase might be a logo design or a voice over project, they often come back to Fiverr when another business need arises. As we continue to expand our category coverage and optimize our personalization and recommendation engines, repeat buyers generally increase spend with us over time. We believe the repeat purchase activity from existing buyers reflects the underlying strength of our business and provides us with revenue visibility and predictability.

Spend per buyer

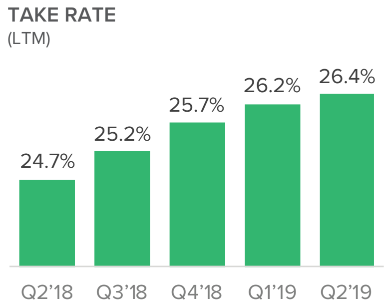
The second driver of our revenue growth is the annual spend per buyer, or SPB. In Q2 2019 SPB grew to $157, up 16% y/y from $135 in Q2 2018. SPB is an indicator of our buyers' purchasing patterns and is impacted by the number of active buyers, buyers purchasing from multiple categories, average price per purchase and our ability to acquire buyers with a higher lifetime value. The growth of our SPB is not limited to certain verticals, but rather across the board. We expect steady growth on a quarterly basis going forward with modest Q4 seasonality. We believe a gradual and steady growth of SPB is most effective in order to maintain the right balance of marketplace liquidity.



These SPB growth trends demonstrate our success in moving upmarket by offering a broader set of digital services, increasing engagement and lifetime value of our buyers, and growing the number of higher value Gigs and higher quality sellers on our platform. In 2018, high-value buyers who spent over $500 accounted for over 50% of our total revenue, up from 35% in 2012. The revenue contribution from those high-value buyers continued to increase in the twelve months ended June 30, 2019.

Take rate

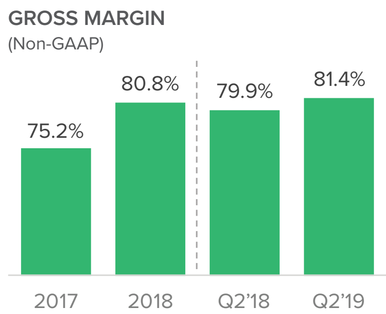
Our take rate was 26.4% for the 12 months ended June 30, 2019, an increase of 170 bps y/y. We believe our industry leading take rate reflects the high value creation we have provided to buyers and sellers.



The increase in our take rate is a result of several factors. During 2018, we updated pricing on our marketplace where minimum service fee was raised from $1 to $2, which impacted primarily transactions of under $40. In late 2018, we started rolling out a series of currency capabilities to users on our platform, which in turn generated incremental revenue. The inclusion of ClearVoice in Q1 2019 also contributed to our take rate increase as their subscription based model enjoys a higher take rate. Additionally, we started to monetize certain seller tools in Q4 2018, including the introduction of a paid tier subscription on And.Co, as well as the launch of Fiverr Learn. And.Co offers a platform for online back office service to assist freelancers with invoicing, contracts and task management. Fiverr Learn is an online learning platform with original course content in categories such as graphic design, branding, digital marketing and copywriting.

Gross Profit and Margin

Gross profit on a GAAP basis for Q2 2019 was $20.6 million, up 43% from $14.4 million in Q2 2018. Gross margin was 79.5%, up from 78.4% in the prior year period. Non-GAAP gross margin was 81.4% in Q2 2019, increasing 150 bps from 79.9% in Q2 2018. The improvement in gross margin was primarily driven by improved efficiency in payment processing fees, scaled benefits for cloud hosting fees, and customer support automation, partially offset by the inclusion of ClearVoice. Starting in the second half of 2018, our gross margin also benefited from the minimum service fee increase for transactions under $40.



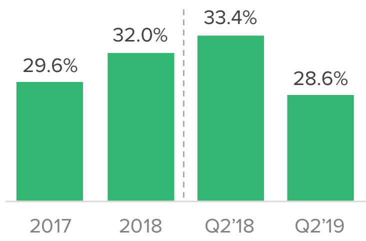
Operating Expenses

Total operating expenses on a GAAP basis were $29.9 million, compared to $21.0 million in prior year period. Non-GAAP operating expenses were $26.0 million or 100.3% of revenue, compared to $20.3 million or 110.2% of revenue. The improvement in operating leverage represents improved efficiency as a result of our scale, our disciplined expense control, and our continued commitment towards path to profitability.

Research and development expenses on a GAAP basis were $8.5 million or 32.6% of revenue in the second quarter of 2019. Non-GAAP research and development expenses were $7.4 million or 28.6% of revenue, compared to 33.4% in prior year period. The decrease was primarily due to growth on the topline. We continue to invest in technology and product innovations. In Q2 2019, in addition to continuous product investments to improve user experience and funnel conversion, we also initiated product development efforts on the Fiverr Studios product, whose early beta version was just introduced late in July. We also continue to invest in our mobile app which continues to be top ranking in its category in the App Store and Google Play. Lastly, international expansion continues to be a key priority for us in 2019, and we continue to invest in Germany on both product and marketing fronts.

RESEARCH AND DEVELOPMENT

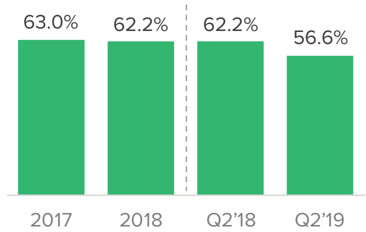
(Non-GAAP, as % of revenue)



Sales and marketing expenses were $15.9 million or 61.2% of revenue on a GAAP basis and $14.7 million or 56.6% of revenue on a non-GAAP basis in the second quarter of 2019, as compared to 63.5% and 62.2%, respectively. We are achieving significant sales and marketing leverage thanks to improvement in buyer conversion, channel diversification, and continued strong execution which demonstrates our ability to drive marketing efficiency at scale and our commitment to a path to profitability.

SALES AND MARKETING

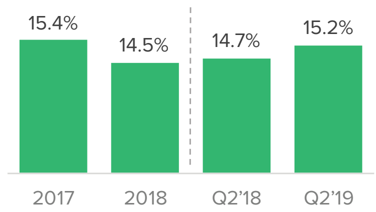
(Non-GAAP, as % of revenue)



General and administrative expenses were $5.6 million or 21.7% of revenue on a GAAP basis and $3.9 million or 15.2% of revenue on a non-GAAP basis in the second quarter of 2019, as compared to 15.7% and 14.7%, respectively. The increase was due primarily to one-time IPO related expenses as well as increasing accounting and legal expenses as a public company going forward.

GENERAL AND ADMINISTRATIVE

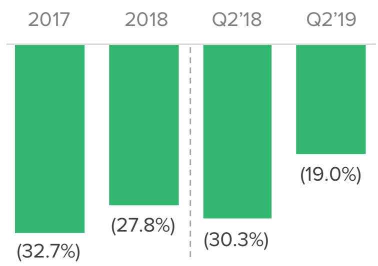
(Non-GAAP, as % of revenue)



Net Loss and Adjusted EBITDA

Net loss on a GAAP basis for the quarter was ($9.4) million, compared to ($6.7) million in the prior year period. Adjusted EBITDA loss was ($4.9) million, or (19.0%) of revenue, compared to ($5.6) million or (30.3%) in Q2 2018. The improved EBITDA margin was driven primarily by improved leverage in R&D and S&M, partially offset by G&A increase as a result of the IPO. We are making steady progress on our path to profitability and continue to demonstrate cost discipline and achieved 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.

	Q3 2019	FY 2019
REVENUE	$25.5 - $26.5 million	$101.5 - $103.5 million
y/y growth	30% - 35%	34% - 37%
ADJUSTED EBITDA	($6.0) - ($5.0) million	($21.5) - ($20.5) million

Closing

Fiverr delivered strong financial results in Q2. We are at a unique moment in time when technology and generational shifts are upending how the world works together. It's an unprecedented shift that has also created a massive market opportunity - one that we estimate to be a $100 billion dollar addressable market in the U.S. alone, and an even bigger opportunity globally.

By productizing digital services - turning freelance work into a commodity as simple, on-demand, and reliable as buying something on Amazon - Fiverr has developed one of the world's largest freelance marketplaces for digital services, an ecosystem that connects businesses of all sizes with talented independent workers of all styles and stripes. We've taken away all the tedious inefficiency and uncertainty, and replaced it with confidence, quality, and value. We are poised for tremendous growth as freelance work continues to move online.

We have multiple growth levers and are committed to driving sustainable growth and delivering shareholder value over the long-term. We look forward to sharing our progress with you and appreciate your support. We intend to be very active regarding investor relations and will be presenting and holding investor meetings at the Citi conference in New York on September 5th.

Welcome to the future of work.

Sincerely,

Micha Kaufman

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 Thursday, August 8, 2019 at 8:30a.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 Thursday, August 15, 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 entering passcode 0132812.

Fiverr International Ltd.

CONSOLIDATED BALANCE SHEETS

(In thousands)

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 29,112	$ 55,955
User funds	50,003	39,736
Bank deposits	20,000	-
Restricted deposit	310	327
Marketable securities	109,417	-
Other receivables	2,997	776
Total current assets	211,839	96,794
Property and equipment, net	5,309	5,143
Intangible assets, net	7,917	4,065
Goodwill	11,240	1,381
Restricted deposit	3,182	3,191
Other non-current assets	463	456
Total assets	$ 239,950	$ 111,030
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables	$ 4,518	$ 3,364
User accounts	50,003	39,736
Other account payables and accrued expenses	20,120	10,231
Current maturities of long-term loan	483	445
Total current liabilities	75,124	53,776
Long-term loan and other non-current liabilities	5,302	3,280
Shareholders' equity:		
Share capital and additional paid-in capital	301,100	178,164
Accumulated deficit	(141,892)	(123,592)
Accumulated other comprehensive income (loss)	316	(598)
Total shareholders' equity	159,524	53,974
Total liabilities and shareholders' equity	$ 239,950	$ 111,030

Fiverr International Ltd.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except loss per share data)

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	$ 25,912	$ 18,399	$ 49,675	$ 35,145
Cost of revenue	5,305	3,978	10,241	7,811
Gross profit	20,607	14,421	39,434	27,334
Operating expenses:				
Research and development	8,457	6,436	16,073	12,569
Sales and marketing	15,852	11,690	31,228	25,388
General and administrative	5,621	2,888	9,977	12,440
Total operating expenses	29,930	21,014	57,278	50,397
Operating loss	(9,323)	(6,593)	(17,844)	(23,063)
Financial income (expenses), net	(10)	(92)	204	125
Loss before income taxes	(9,333)	(6,685)	(17,640)	(22,938)
Income taxes	(20)	-	(26)	-
Net loss	(9,353)	(6,685)	(17,666)	(22,938)
Deemed dividend to protected ordinary shareholders	-	-	(632)	-
Net loss attributable to ordinary shareholders	(9,353)	(6,685)	(18,298)	(22,938)
Basic and diluted net loss per share attributable to ordinary shareholders	$ (0.88)	$ (1.03)	$ (2.06)	$ (3.54)
Basic and diluted weighted average ordinary shares	10,664	6,494	8,868	6,482

Fiverr International Ltd.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
Operating Activities				
Net loss	$ (9,353)	$ (6,685)	$ (17,666)	$ (22,938)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	910	554	1,717	1,055
Stock-based compensation	2,216	366	3,962	7,618
Net loss (gain) from exchange rate fluctuations	116	44	63	(51)
Changes in assets and liabilities:				
User funds	(1,942)	-	(10,267)	-
Other receivables	(44)	(436)	(1,291)	(733)
Trade payables	365	(1,671)	876	(48)
User accounts	1,942	267	10,267	6,518
Other account payables and accrued expenses	2,599	1,806	4,093	3,336
Non-current liabilities	(163)	103	(105)	184
Net cash used in operating activities	(3,354)	(5,652)	(8,351)	(5,059)
Investing Activities				
Acquisition of business, net of cash acquired	-	-	(9,967)	(2,676)
Purchase of property and equipment	(282)	(240)	(459)	(372)
Capitalization of internal-use software	(221)	(193)	(324)	(456)
Other receivables and non-current assets	-	54	(122)	(258)
Bank deposits	(10,000)	-	(20,000)	-
Restricted deposit	-	(25)	-	(60)
Investment in marketable securities	(109,391)	-	(109,391)	-
Net cash used in investing activities	(119,894)	(404)	(140,263)	(3,822)
Financing Activities				
Proceeds from exercise of options	485	73	541	150
Proceeds from initial public offering, net	117,362	-	117,362	-
Proceeds from issuance of protected ordinary shares, net	-	-	4,340	-
Payment of deferred issuance costs related to initial public offering	-	-	(405)	-
Repayment of long-term loan	(116)	(106)	(228)	(216)
Net cash provided by (used in) financing activities	117,731	(33)	121,610	(66)
Effect of exchange rate fluctuations on cash and cash equivalents	(7)	(149)	161	(121)
Decrease in cash and cash equivalents	(5,524)	(6,238)	(26,843)	(9,068)
Cash and cash equivalents at the beginning of period	34,636	25,036	55,955	27,866
Cash and cash equivalents at the end of period	$ 29,112	$ 18,798	$ 29,112	$ 18,798

Fiverr International Ltd.

KEY PERFORMANCE METRICS

	Twelve Months Ended June 30,	
	2019	2018
	(Unaudited)	
Annual active buyers (in thousands)	2,175	1,908
Annual spend per buyer ($)	$ 157	$ 135

Fiverr International Ltd.

RECONCILIATION OF GAAP TO NON-GAAP GROSS PROFIT

(In thousands, except margin data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
GAAP gross profit	$ 20,607	$ 14,421	$ 39,434	$ 27,334
Add:				
Share-based compensation	28	3	50	5
Depreciation and amortization	450	274	856	529
Non-GAAP gross profit	$ 21,085	$ 14,698	$ 40,340	$ 27,868
Non-GAAP gross margin	81.4%	79.9%	81.2%	79.3%

Fiverr International Ltd.

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

(In thousands, except loss per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
GAAP net loss attributable to ordinary shareholders	$ (9,353)	$ (6,685)	$ (18,298)	$ (22,938)
Add:				
Deemed dividend to protected ordinary shareholders	-	-	632	-
Depreciation and amortization	910	554	1,717	1,055
Share-based compensation	2,216	366	3,962	7,618
Other initial public offering related expenses	416	-	416	-
Contingent consideration revaluation and acquisition related costs	868	94	1,446	1,373
Non-GAAP net loss	(4,943)	(5,671)	(10,125)	(12,892)
GAAP weighted average number of ordinary shares outstanding - basic and diluted	10,664	6,494	8,868	6,482
Add:				
Additional weighted average shares giving effect to exchange of protected ordinary shares at the beginning of the period	15,960	16,144	17,266	16,134
Non-GAAP basic and diluted weighted average ordinary shares	26,624	22,638	26,134	22,616
Non-GAAP basic and diluted net loss per share attributable to ordinary shareholders	$ (0.19)	$ (0.25)	$ (0.39)	$ (0.57)

Note: Non-GAAP basic and diluted net loss per ordinary share for the three and six months ended June 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 six months ended June 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.

Fiverr International Ltd.

RECONCILIATION OF GAAP NET LOSS TO ADJUSTED EBITDA

(In thousands, except margin data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
GAAP net loss	$ (9,353)	$ (6,685)	$ (17,666)	$ (22,938)
Add:				
Financial expenses (income), net	10	92	(204)	(125)
Income taxes	20	-	26	-
Depreciation and amortization	910	554	1,717	1,055
Share-based compensation	2,216	366	3,962	7,618
Other initial public offering related expenses	416	-	416	-
Contingent consideration revaluation and acquisition related costs	868	94	1,446	1,373
Adjusted EBITDA	$ (4,913)	$ (5,579)	$ (10,303)	$ (13,017)
Adjusted EBITDA margin	(19.0%)	(30.3%)	(20.7%)	(37.0%)

Fiverr International Ltd.

RECONCILIATION OF GAAP TO NON-GAAP OPERATING EXPENSES

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Unaudited)		(Unaudited)	
GAAP research and development	$ 8,457	$ 6,436	$ 16,073	$ 12,569
Less:				
Share-based compensation	901	134	1,536	219
Depreciation and amortization	109	110	212	203
Acquisition related costs	47	47	94	654
Non-GAAP research and development	$ 7,400	$ 6,145	$ 14,231	$ 11,493
GAAP sales and marketing	$ 15,852	$ 11,690	$ 31,228	$ 25,388
Less:				
Share-based compensation	467	74	723	137
Depreciation and amortization	308	133	564	248
Acquisition related costs	410	47	698	654
Non-GAAP sales and marketing	$ 14,667	$ 11,436	$ 29,243	$ 24,349
GAAP general and administrative	$ 5,621	$ 2,888	$ 9,977	$ 12,440
Less:				
Share-based compensation	820	155	1,653	7,257
Depreciation and amortization	43	37	85	75
Other initial public offering related expenses	416	-	416	-
Contingent consideration revaluation and acquisition related costs	411	-	654	65
Non-GAAP general and administrative	$ 3,931	$ 2,696	$ 7,169	$ 5,043

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 aquisition 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 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 third 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, the gain or loss on disposal of property and equipment, gain or loss on revaluation of contingent consideration, and impairment of intangible assets, 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 measure.

Forward Looking Statements

Act of 1995. All statements contained in this sharholder 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 second quarter of 2019, the third 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.