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Fiverr International, Ltd. (NYSE: FVRR)
Prepared Remarks
Q2 2024 Earnings Call

Management Discussion

Jinjin Qian
Executive Vice President, Strategic Finance – Fiverr International, Ltd.

Thank you, operator, and good morning everyone. Thank you for joining us on Fiverr's earnings conference call for the second quarter that ended June 30, 2024. Joining me on the call today are Micha Kaufman, Founder and CEO, and Ofer Katz, President and CFO. Before we start, I would like to remind you that during this call we may make forward-looking statements and that these statements are based on our current expectations and assumptions as of today and Fiverr assumes no obligation to update or revise them.

A discussion of some of the important risk factors that could cause actual results to differ materially from any forward-looking statements can be found under the "Risk Factors" section in Fiverr's most recent Form 20-F and other filings with the SEC.

During this call, we'll be referring to some key performance metrics and non-GAAP financial measures, including Adjusted EBITDA, Adjusted EBITDA margin and Free Cash Flow. Further explanation and a reconciliation of each of the non-GAAP financial measures to the most directly comparable GAAP measures is provided in the earnings release we issued today and our shareholder letter, each of which is available on our website at investors.fiverr.com.

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

Micha Kaufman
Founder & Chief Executive Officer – Fiverr International, Ltd.

Thank you, Jinjin. Good morning everyone, and thank you for joining us.

Our Q2 results demonstrate continued strong execution and the resilience of our business. Both revenue and adjusted EBITDA came in above the midpoint of our guidance as we continued to expand customer wallet share and improve monetization. We are committed to driving profitable growth and delivering shareholder value in a fluid environment. I'm pleased to report that we have completed the $100 million buyback program announced in April. We remain highly confident about the long-term opportunity of our business and believe our strong cash flow and strong balance sheet allow us to invest in our business while returning capital to our shareholders.

I am very excited to be here today. It has been an incredibly busy and fulfilling few months at Fiverr, culminating in the announcement of our Summer Product Release last week. I want to thank our entire team for their hard work. The level of energy and dedication, especially in the last few weeks, reminded me of Fiverr's early days when we were just a small start-up. Fittingly, we are "starting up" a number of new ventures as we look to take our business to the next level.

First is the expansion of Fiverr to enable freelancer hiring capabilities. With the introduction of a professions-based catalog and the ability to initiate time-based transactions and contracts, we are enabling businesses to hire long-term freelancers who act as part of a team with ongoing tasks and goals. This is not an area we competed in historically, but as we increasingly go upmarket and lean into complex service categories, it becomes essential to round up our offerings. We believe it will significantly expand our direct addressable market, allowing us to open up top-of-funnel, specifically for traffic with long-term hiring intentions. It will also allow us to capture more of our customers' overall freelance hiring budget.

The expansion of Fiverr to a multi-solution platform that enables long-term hiring is also an important message to our community. In an environment where AI seems to have the potential to upend many professions, the line between human services and AI-generated services is blurring. The professions-based catalog puts talent at the center of the marketplace experience. To our buyer community, it underscores our value proposition in connecting them with the best human talent around the world for authentic, creative work. To our talent community, the mission of Fiverr since Day One has always been to bring them opportunities and empower their success, and that commitment has not changed in the face of AI. It is our passion and responsibility to help talent navigate the changing landscape, discover their skills, and translate them into a career.

Earlier this month, we unveiled our first-ever Breakthrough Achievement recognition to celebrate freelancers who have achieved significant earning milestones on Fiverr. It is extremely rewarding and inspiring to see people making $1 million or even $5 million through our platform by just doing what they love. Whether you are a musician or scriptwriter or Shopify expert, and no matter where you come from, it is all possible on Fiverr.

The second theme of our Summer Product Release is deepening the integration of Neo™, Fiverr's AI tool, throughout the marketplace experience. As GenAI applications quickly shift consumers' Internet behavior and expectations, we want to stay ahead of the curve to build a more personable experience on Fiverr. At the same time, tests and data in the past six months have shown that not everyone prefers an outright chatbot experience when it comes to shopping. So our strategy for Neo™ is to incorporate it as an assistant throughout the funnel to help customers when friction arises.

For search, Neo™ provides the guidance you need to navigate Fiverr's massive catalog of services and talent, and it is trained to understand customers' past transactions and preferences to provide the most relevant recommendations. When it comes to project briefing, having Neo™ is like having a strategist by your side. It transforms customers' ideas into a structured brief document that not only looks good but also delivers better business results. Neo can also help customers write more detailed reviews faster by generating content based on transactions and providing language assistance. We are in the early innings of unleashing the full potential of AI in our marketplace, and we believe it'll be a multi-year tailwind for us to drive product innovation and growth.

Lastly, I want to say a few words on the acquisition of AutoDS. For us, the deal is strategic for a number of reasons. Fiverr was founded on the belief that everyone should have the opportunity to find financial independence. The creator economy is the epitome of this community. And competitively, we have a strong foothold in this segment. We are passionate about continuing to support and empower this community. Like the Fiverr Millionaires that I mentioned earlier, there is something emotionally gratifying in witnessing and contributing to their amazing stories.

Secondly, while dropshipping is not exactly a new business, with the rise of fast-fashion e-commerce sites like Temu and Shein, and the continued strength of social media, we are seeing dropshipping-related categories experiencing tremendous growth on Fiverr. That includes Shopify development, e-commerce management, video ads, and UGC video, to name a few. We believe the deal can create many synergetic opportunities for us to lean into growth. Lastly, and in alignment with our expansion to a platform play, we are taking the opportunity to fold in a new subscription-based revenue stream with strong synergy and growth potential. This will add to our value-added product portfolio, which includes Promoted Gigs and Seller Plus, and further strengthen our business's overall financial profile.

To wrap up, we are expanding our business from a simple marketplace to a complete freelance talent platform for businesses of all sizes. We are also diversifying our business model to capture customers' freelance spending and provide them with multiple value-added products and software solutions. We continue to operate at the highest level of discipline to drive consistent margin expansion and free cash flow generation. We are committed to profitable growth, robust free cash flow, and a disciplined capital allocation strategy that aims to deliver long-term shareholder value.

With that, I'll turn the call over to Ofer, who will share some financial highlights.

Ofer Katz
President & Chief Financial Officer – Fiverr International, Ltd.

Thank you, Micha, and good morning everyone.

We delivered another strong quarter of results. Revenue for Q2 was $94.7 million, up 6% year-over-year, above the midpoint of our guidance. Adjusted EBITDA was $17.8 million, near the top end of our guidance and representing an Adjusted EBITDA margin of 18.9%. Importantly, Adjusted EBITDA margin increased by 180 bps y/y, which underscores our commitment to driving steady, measurable operating leverage. We remain confident in our ability to achieve a 25% long-term Adjusted EBITDA margin in the next three years.

We also continued to generate impressive cash flow. Operating cash flow was $21.0 million, up 11.9% y/y. Free cash flow was $20.7 million, representing a 12.5% y/y increase and an FCF margin of 21.8%. This results in a strong balance sheet which we intend to use to increase shareholder value through a prudent capital allocation strategy. As Micha mentioned, we have completed the $100 million share buyback which was authorized in April, and we are committed to optimizing our capital allocation strategy to deliver shareholder value.

Over the next three years, we expect to continue growing free cash flow generation with a CAGR in the mid-teens. There are multiple ways we can get there. But as I often say, we always model based on what we know. Based on our line of sight today, we expect to achieve this through steady revenue growth, continued margin expansion, strong free cash flow generation, accompanied by active share count management.

Unpacking our Q2 results, we continue to see our strategy of going upmarket work really well, with spend per buyer showing a robust growth of 10% y/y. We also see AI continuing to have a net positive impact on our business. It is important to note that we are starting to see stabilizing and improving trends in simple services. As we mentioned in prior quarters, we believe the low-end transactions within the simple service categories were getting impacted the most. As the mix shift within those categories improves towards the higher end, we believe the overall durability of those categories shall improve over time as well.

There are also certain metrics in Q2 that didn't perform as strongly as we had anticipated. Active buyers were 3.9 million, down 8% y/y, and overall GMV decelerated in Q2. Both were impacted by a slowdown in traffic started in June as the strength we saw in the earlier part of the year proved to be more of a pull-forward rather than a sustainable turn of trends. These trends serve as a reminder for us that we are still in the middle of a macrocycle, where higher inflation and interest rates impact the immediate cash flow of small businesses, erode their confidence in spending, as they try to preserve more cash and delay large projects for potentially rainy days ahead.

As we enter into the second half of this year, we are expanding our product portfolio both organically and inorganically to create additional growth catalysts, as Micha covered extensively in his remarks. Our seller monetization programs such as Promoted Gigs and Seller Plus continued to show strong growth momentum and the addition of AutoDS will further strengthen our overall take rate. We believe these efforts will keep us on track to deliver the targets we set at the beginning of the year.

For the full year 2024, we are raising the bottom end of our guidance and now expect revenue to be in the range of $383-387 million, representing y/y growth of 6-7%. We are seeing the volatility in June continue into July, and we anticipate Q3 revenue growth to be relatively muted. We expect Q4 revenue growth to improve as the continued product development and the addition of AutoDS create additional growth catalysts. In terms of underlying drivers, we now expect active buyers to decline slightly more than we previously anticipated, and spend per buyer to continue growing at a robust pace. We now expect the take rate to increase by approximately 250 basis points as we continue to expand our value-added product portfolio. For Adjusted EBITDA, we expect full year 2024 to be in the range of $69-73 million, representing an Adjusted EBITDA margin of 18.4% at the midpoint. We are confident that we can continue making steady and consistent progress on our Adjusted EBITDA margin to reach 25% by the end of 2027.

With that, we'll now turn the call over to the operator for questions.