February 22, 2023
Fiverr International, Ltd. (NYSE: FVRR)
Prepared Remarks
Q4 2022 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 fourth quarter that ended December 31, 2022. 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 non-GAAP financial measures, including Adjusted EBITDA and Adjusted EBITDA margin. 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 today.

2022 was a unique year. In response to a shifting macro environment resulting in headwinds to the overall freelance demand, we quickly pivoted the company to tighten our focus on efficiency and profitability. As an entrepreneur and knowing how huge the long-term opportunity is in front of us, I must admit this wasn't easy. But it was absolutely the right thing to do. Not only does it help us navigate through the macro cycle and maximize long-term shareholder value, but it also brings a new level of energy and velocity across the company - we are more focused on fewer but more impactful projects, making faster decisions, and feeling closer as a team.

All these efforts led us to a strong finish in 2022. Revenue for Q4 was $83 million, up 4%, in line with our expectations. We delivered our strongest quarter ever in terms of Adjusted EBITDA, above the top end of our guidance and representing an Adjusted EBITDA margin of 11%. Active buyers were 4.3 million, stable with modest growth, while we reduced overall marketing spend and improved marketing leverage. We are driving an increasing amount of business from non-paid traffic, with strong brand awareness and continued engagement among existing customers. Repeat customers now represent 63% of our core marketplace revenue, compared to 59% in 2021. Growth of large wallet customers also continues to be robust - those with an annual spend of $10,000 or more grew 29% year-over-year, significantly higher than overall buyer growth.

In 2023, you should expect us to continue strengthening our core business and operating at an intensified level of focus and efficiency. We will continue accelerating our pace towards the long-term Adjusted EBITDA target of 25%. Given the current macro environment, we believe this would put us in the best position to optimize our overall growth and profitability profile. The long-term secular trend towards remote work and flexible workforce remains intact, so we believe it's just a matter of time for overall freelance demand to rebound. When that happens, we expect to return to a strong growth trajectory while being a much more profitable company than before.

The tech industry is also at a unique time with a significant amount of layoffs among tech and knowledge workers. Many have turned to freelancing as a temporary or permanent career choice. At Fiverr, we are laser-focused on making Fiverr the best platform for independent talent to build a business and earn a living. Active sellers in 2022 reached an all-time high, with a record level of new sellers joining our platform. Fiverr's unique e-commerce platform gives freelancers the freedom and efficiency to take orders from buyers instead of bidding and chasing after job opportunities. We also operate the largest and most comprehensive digital service catalog, with over 600 categories at the end of 2022. In recent years, we expanded our product offerings to include Promoted Gigs, Seller Plus and cash advance programs to provide freelancers with a dynamic set of advertising, membership and finance tools to build their business. All of these are the reasons why Fiverr organically attracts freelancers of all skills and across the world to our platform and also why we can command an industry-leading take rate of 30%.

Now I want to spend a minute talking about AI. With the emergence of AI tools such as ChatGPT, many have questioned whether Fiverr's business will be impacted or even replaced by AI technology in the future. I'm actually very excited about the possibilities of AI.

Fiverr will uniquely benefit from AI in three aspects. First, innovation always creates more jobs, not less. The recent AI tools presented to the world in the past few months have demonstrated a significant step function in the evolutionary progress of technology. However, as much as these tools have incredible power, what really matters is how humans will make use of these tools to create inspiring, creative work for other humans to consume. As a result, it will bring many new professions related to AI that we can't even imagine today. In fact, these talents are already coming to our platform. We made a number of public announcements in January to share the volume of interest we see for AI-related services and have, once again, demonstrated our swift response to market demand by introducing a series of new categories to address it.

Second, AI tools will bring a lot of productivity improvement to our talent community and Fiverr is uniquely positioned to democratize and distribute these tools to the freelancer community, who often lack access and resources to deploy those technologies.

Third, digital service is highly fragmented, unstructured and complicated - so matching buyers and sellers through an e-commerce model is a fairly difficult product challenge. With AI technology, we can unlock the long tail of data we have and drastically improve the overall search, browsing and matching experience. We are already working on some of these ideas.

With the macro headlines dominating the investor community, it is sometimes easy to forget how big the opportunity in front of us is. Nearly 40% of the U.S. workforce are already freelancers of certain capacity today, and that will reach over 50% by 2025. Engaging a dynamic workforce that combines full-time vs. independent workers, and on-site vs. remote is increasingly becoming a top-of-mind question for businesses of all sizes. Fiverr is highly differentiated from other freelance platforms. We have built a two-sided marketplace with the largest selection of digital services, a brand that people around the world admire, and a passionate community of over 4 million businesses and hundreds of thousands of freelancers. In short, we have an enviable foundation with scale, competitive moats, and a best-in-class business model.

Yet we are still in the first inning when it comes to unlocking the full potential of Fiverr. To do that, and especially under the current macro, what became clear is that we need to give the core marketplace much more attention and take a more focused approach and prioritize fast, flawless execution. We have set three straightforward priorities for 2023. First, improve comparability in the marketplace. With hundreds of thousands of sellers and millions of service listings, we must deliver world-class search and discovery technology to surface exactly the right breadth and depth of inventory tailored to each buyer. Second, create differentiated category experiences. With so many different types of digital services offered on our marketplace, some visual and others non-visual, we need to provide sellers with robust tools to express their talent and their work. Third, improve engagement and retention. There is tremendous potential to grow our wallet share among our buyers, and to do that, we need to make sure that the Fiverr brand delivers trust and reliability throughout the buying experience. Brand awareness for Fiverr is high, and so is our NPS score. This gives us great strengths upon which to build, and we need to continue to build our platform as a top-of-mind choice for our buyers when they have a need. We are already working with urgency toward executing these initiatives.

In conclusion, we are extremely encouraged by the progress we made last year to strengthen our focus and efficiency within the company. In 2023, we are confident that our nimble, more cost-efficient structure can support the work we need to do to win. We expect to attack exciting growth opportunities while driving Adjusted EBITDA growth at a faster pace than before.

With that, I'll turn the call now to Ofer, who will walk you through our financial highlights.

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

Thank you Micha and good morning everyone.

We ended 2022 on a strong note. Revenue of $83.1 million came in a tad higher than our baseline expectation and Adjusted EBITDA of $9.4 million or 11.3% in margin was above our guidance range. We took the challenge and opportunity of the macro environment and brought the operational excellence of the company to the next level. This marks the strongest quarter in terms of Adjusted EBITDA so far in our history, but it's just the beginning. As Micha mentioned, we will build on the progress we made in 2022 and continue to execute with discipline and focus this year. With the adjustments we made last year, I believe 2023 is a year where we bring steady improvement in our growth trajectory, while accelerating the pace toward our long-term profitability target.

The underlying dynamics of our business continue to show resilience. Active buyers for Q4 were 4.3 million, up 1% year-over-year. With the outsized cohorts from the past two years going through their initial period of stabilization, we are encouraged to see the overall active buyer trends stabilizing. At the same time, we are moderating our marketing spend - in the current macro environment where SMB sentiment is low and their spending appetite limited, we believe it's important to maintain discipline and efficiency rather than leaning in. As you can see, tROI for performance marketing continues to be strong at around 0.9x, and we are improving our overall sales and marketing expense as a percentage of revenue. Going forward, we expect Q1'23 to be the trough in terms of active buyer growth and it will improve steadily in the latter half of 2023.

Spend per buyer for Q4 was $262, up 8% year-over-year, as we continue to make progress in going upmarket. The majority of the spend growth in 2022 occurred in the first half of the year, as the headwinds in SMB spending that intensified later in the year was certainly felt across all of our cohorts. As we mentioned in the shareholder letter, in any of the previous years, it was very consistent that our buyers typically increase their spend on the platform from the first half of the year to the second, as our wallet share expands over time, and as the holiday season drives additional investments. In 2022, however, all cohorts experienced some decline in spend in the second half of the year. It is worth noting that despite the headwinds, we continue to see our upmarket initiatives bearing fruit. Large wallet share buyers, those who spend over $10,000 a year, continue to be the fastest growing segment among our buyers. Looking forward, given the lack of a concrete timeline of the recovery of SMB sentiment, we believe the expansion of SPB would be relatively muted compared to a typical year, and our revenue growth will be contributed by active buyers and spend per buyer in a balanced manner.

Take rate for the quarter was 30.2% in Q4, representing a year-over-year expansion of 100 basis points. We continue to believe our take rate will be sustainable with a modest upside over time, driven by value-added services. We are seeing healthy growth in both Promoted Gigs and Seller Plus programs and we expect to continue doing so in 2023.

Now, let's turn to guidance. For the full year of 2023, we expect revenue to be in the range of $350 - $365 million, representing year-over-year growth of 4%-8%. Adjusted EBITDA is expected to be in the range of $45.0 - $55.0 million, representing an Adjusted EBITDA margin of 14% at the midpoint. For the first quarter of 2023, revenue is expected to be $86.5 - $88.5 million, representing year-over-year growth of 0%-2%. Adjusted EBITDA is expected to be $9.0 - $10.5 million, representing an Adjusted EBITDA margin of 11% at the midpoint.

Our Q1 and full-year guidance reflects the current macro dynamics as well as the visibility we have on our historical cohorts and acquisition funnels in the current environment. We believe the first quarter will be the most challenging in terms of revenue growth rate, due to the comparison to Q1'22 when growth was minimally impacted by macro headwinds. We expect year-over-year revenue growth rates to increase over the course of 2023 and we expect to exit 2023 with double-digit revenue growth rate at the midpoint.

For Adjusted EBITDA, we expect to build upon the progress we made in 2022 and continue to focus on cost discipline and operational efficiency. We are committed to delivering our Adjusted EBITDA guidance this year regardless of the macro conditions and our revenue level. We will achieve this by dynamically adjusting our cost structure throughout the year. Our marketing unit economics continue to be very healthy. We will continue to be disciplined and expect to drive meaningful leverage on our sales and marketing expense line.

To conclude, we are entering 2023 with great confidence and we believe we are in a great place in terms of both business and financial strategy in order to weather this uncertain period. The market opportunity in front of us is enormous. We will emerge out of this macro cycle as a stronger and more profitable company and continue our journey toward realizing our future potential.

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