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Fiverr International, Ltd. (NYSE: FVRR)

Prepared Remarks

Q1 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 first quarter ended March 31, 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.

Thank you Jinjin. Good morning everyone and thanks for taking the time to join us on the call today. Before launching into our financial results I would like to acknowledge this challenging time that we are all facing. My hope is that you are all staying safe and

our immense gratitude goes out to the doctors, nurses, first responders and everyone who works on the frontline of essential services to keep us all safe and healthy.

Today Fiverr reported strong Q1 results with revenue growing 44% year-over-year. This represents a third consecutive quarter of accelerating growth and beating our prior expectations across all metrics. We also significantly narrowed our EBITDA loss by 1,430 basis points and are on an accelerated path toward profitability. All of this was achieved amid a global pandemic that has shocked, humbled and tested our society as a whole.

At Fiverr, we are proud and fortunate that we have the ability to step up and be there for our community. For buyers, Fiverr is a place to build and expand their online presence even if they don't have the skills or tools to do so themselves; it is a place to find a team and collaborate even when hiring an employee becomes impossible; and it is a place for businesses to get more things done with more efficient budgets and resources. For sellers, Fiverr is an increasingly important source of income as we enable them to find remote work opportunities, engage with their clients, and deliver digital services, all without leaving their homes.

In our COVID-19 update to shareholders in early April, we mentioned how our business experienced a brief period of volatility in mid-March and quickly rebounded and resumed strong growth within a couple of weeks. Since then, we have continued to gain significant momentum every week, across all cohorts, all verticals, and all geographies.

- Weekly GMV on our core marketplace has accelerated on a year over year basis for every week in April for a total of six consecutive weeks since mid-March
- We hit all-time daily revenue records four times in April, despite the fact that April typically is not a seasonally strong month with Easter holidays
- All of our existing cohorts have rebounded strongly from March volatility, not only back to their historical pattern of contributing a consistent stream of revenue, but also beyond those levels with increasing revenues. We believe this resiliency underscores the loyalty of our existing buyer base.

- We are also experiencing a strong uplift on new buyer acquisition, driven by an unprecedented jump in organic awareness and attractive opportunities in performance marketing.
- All verticals have rebounded with similar trends to the overall marketplace, and we have seen particular strength in categories related to moving business from offline to online, as well as digital content related categories such as gaming, social media, online lessons and ebooks.
- Last but not least, we are seeing the strength of our business not only in the U.S., but across the world, especially in several European countries where our timely investments in local expansion were in place right around the time when global stay-at-home orders intensified. Both new seller and new buyer registration have been particularly strong in Spain and France in recent weeks.

I am incredibly grateful and proud of the resilience, adaptability and dedication of our team across the world. Circumstances evolved rapidly and not only did our team rise to the occasion in terms of executing numerous initiatives to help our buyers and sellers navigate through COVID-19, but they also succeeded in executing our existing roadmap often ahead of schedule. Complex and groundbreaking products such as Promoted Gigs and machine translation to localize our user generated content were successfully rolled out; beautiful marketing campaigns were created and executed even when everything in the original plan had to be scrapped due to global travel bans; a record number of community events with a record number of global participants were hosted virtually during the quarter, at a time when social distancing has cut down our human interaction everywhere.

To ensure that we leave enough time to take your questions, we have included a detailed account of our extensive list of initiatives following the COVID-19 outbreak in our letter to shareholders. Our team has demonstrated the strength of our culture by moving smoothly to the Stay at Home reality and embracing the responsibility we have to our community in these testing times. I will be happy to take questions regarding our approach to helping our community.

While the future is in many ways still uncertain, when we take a step back and look at all the ways COVID-19 has touched Fiverr, our buyers, our sellers, and the way we enable work, we have never been more confident about our mission, our business model, and our growth path forward.

Fiverr's mission of connecting businesses and freelancers around the world and enabling remote work to be done digitally through our platform has never been more critical. As the crisis reinforces and accelerates the trends towards adopting remote work and moving businesses online, we believe our marketplace is well-positioned to both address current needs and to be a key resource when the economy re-accelerates.

We run a horizontal marketplace with one of the largest service catalogs in the world. Our revenue diversification across all the categories and our ability to identify market trends and expand our catalog to meet those trends quickly, provide us with a tremendous amount of defensibility and growth ammunition given the constantly evolving user preference and macro environment.

We enjoy an expansive and well-diversified global buyer base that stays active with us and contributes to a continuous and durable revenue stream for a very long time. Our bottom-up approach of our go-to-market strategy is highly viral, and we enjoy increasing word-of-mouth benefits as we scale. Our agile, data-driven and efficient marketing strategy also allows us to find, target and acquire relevant buyers without the need of a sales force or a long sales cycle.

Talent is global and so is the demand for talent - our recent progress on international expansion and the encouraging results in those countries continues to reaffirm this belief and signals the huge market opportunity globally. We are taking a disciplined approach and developing a repeatable playbook in order to drive long-term and sustainable growth in those countries.

Fiverr celebrated its 10th anniversary in February, and there was much to celebrate, but we have barely scratched the surface of the large opportunity ahead of us. I can

confidently say that, as a company, growth will continue to be our top priority for many years ahead.

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

Ofer Katz

Chief Financial Officer – Fiverr International, Ltd.

Thank you and good morning everyone. I'd like to join Micha in acknowledging this difficult time. I hope that you and those important to you are safe and healthy.

As Micha mentioned, Fiverr's business has stayed strong and resilient during this uncertain time. In Q1, revenue grew 44% year over year to \$34.2 million. This was driven by 17% growth in active buyers, 18% growth in spend per buyer, and a 90 basis point improvement in take rate. The strong momentum we had during the first two months of the quarter, together with the strong rebound when we exited the quarter muted the impact from the short period of volatility during mid-March. As a result, we were able to deliver growth metrics that were stronger than expected, across the board.

We also continue to be highly efficient on the marketing front. Trends for both organic and paid channels continued to be strong, and benefitted from the continued momentum from last year, the increase of channel diversification and the uplift from international expansion. The development of COVID-19 also drove higher word-of-mouth impact for Fiverr, as people spend more time online, engage via social media, and consume online content. We have also moderately stepped up our marketing investment in recent weeks as the less competitive advertising space opened additional performance marketing opportunities for us.

The flow-through of strong topline growth in Q1 2020 has led to strong gross margin, EBITDA margin and operating cash flow improvement during the quarter. Non-GAAP gross margin was 81.6%, representing 60 basis points improvement year-over-year. Adjusted EBITDA margin was negative 8.4%, a year-over-year improvement of 1,430

basis points, primarily driven by improving leverage in R&D and sales and marketing. Operating cash flow turned positive in Q1 as strong topline growth and improvement in gross margin and operating leverage led to significant EBITDA improvement, together with some timing benefits from accounts payable.

Looking forward, while the long-term impact of the COVID-19 remains highly uncertain, we are cautiously more optimistic about the upcoming Q2 and the remainder of the year. As a result, we now expect Q2 revenue to be \$35.5-\$36.5 million, representing year-over-year growth of 37%-41%. Adjusted EBITDA for Q2 is expected to be negative 2.5 to negative 1.5 million, representing negative 5.6% at midpoint. We are raising full year revenue guidance to \$145.5-\$147.5 million, or 36%-38% year-over-year growth, up from prior guidance of \$139-\$141 million or 30%-32% year-over-year growth. We are increasing full year EBITDA guidance to negative \$9 to negative \$7 million, up from prior guidance of negative \$15 to negative \$13 million.

In addition, we expect our timing to profitability to accelerate by approximately one year from what we expected. We now expect to reach EBITDA profitability in the second half of 2021. We expect that our strong cash position, together with strong topline growth and path to profitability allows us to continue to hire and make long-term investments in strategic initiatives such as going upmarket, catalog expansion, international expansion, and innovative products, in order to support growth.

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