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Fiverr International, Ltd. (NYSE: FVRR)

Prepared Remarks
Q2 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 second quarter ended June 30, 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. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures are 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

Chief Executive Officer & Director – Fiverr International, Ltd.

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

In the second quarter of 2022, Fiverr delivered revenue of \$85 million, representing y/y growth of 13%. We continue to see a rapid consumer and SMB sentiment shift amidst the challenging global macro environment. Geopolitical volatility, spiking inflation and elevated energy prices meant the spending power of consumers and SMB's was impacted more than expected. This trickled through to the overall demand for freelancer spending. We are not immune to these macro trends.

We are encouraged, however, that Fiverr continues to serve as the backbone for millions of businesses to connect and engage with freelancers. Active buyers were 4.2 million, up 6% y/y; and spend per buyer was \$259, up 14% y/y. Our marketplace scaled up significantly during the COVID years, and most of that gain continues to hold today - we see older cohorts continuing to spend more today vs. pre-COVID, and we continue to attract a significantly larger amount of new buyers to our marketplace every quarter compared to our pre-COVID. Take rate remains strong at 29.8%, up 200 basis points y/y, reflecting the tremendous value we provide to our community of buyers and sellers and the continued expansion of value-added products.

Our Q2 results also demonstrated our continued discipline and operational efficiency. In Q2, we delivered Adjusted EBITDA of \$4.6 million, representing an Adjusted EBITDA margin of 5.4%. Fiverr has always run a lean organization, but the macro environment requires us to recalibrate our growth and profitability profile and investment priorities. Post the quarter, we made a tough decision to reduce our team by 60 members. It is not a decision made lightly. Over the years, we have built an incredible team and an amazing culture at Fiverr, where we gather super talented and passionate people together to build towards a common mission. This means we have to part with many teammates we love and value. We have great people leaving, and other companies will be lucky to have them.

With this, we are putting ourselves in a strong financial position to continue delivering growth with positive Adjusted EBITDA and heading toward our long-term target model. Ofer will provide more color on that.

Now, I want to spend some time discussing the investments we are focusing on to strengthen our core and position us for long-term success.

Fiverr's buyer base consists of 4.2 million people coming from all types of businesses, from solopreneurs all the way to the largest companies in the world. We know that there are over 30 million SMBs in the U.S. alone, and even more in Europe and the rest of the world. Our level of market penetration in the SMB space is impressive but nowhere near saturation - there is ample addressable market available to grow into, and this remains a top priority for us.

We are doubling down on building deep technology moats for our core marketplace. This includes supply, quality, search and personalization, marketing and growth. Fiverr's marketplace is uniquely complex. We have hundreds of thousands of sellers who have created millions of service listings across more than 550 categories. Each of these sellers, listings and categories comes with unique skills, attributes, pricing and scope. Understanding the quality and matching a buyer with a seller is highly complicated, not only due to the diversity of services we cover, but also because quality is subjective depending on the buyer and their specific project.

The fact that Fiverr is an end-to-end transaction marketplace gives us not only the ability to track reviews and ratings but also powerful data to dissect user behavior and user interactions to understand quality and matching. Do they come back and buy more? Did the project deliver on time? Was the communication between the buyer and seller smooth? How many dialogues and revisions were needed before a successful delivery? The recently introduced "Fast Response" badge is an example of how unlocking metadata can create a meaningful impact on conversion rates. We have built a lot of deep tech over the years to extract those signals, and there is so much more to do.

We are also constantly expanding the capabilities of our marketplace to facilitate larger and more complex projects with longer engagement duration between buyers and sellers. During the quarter, we rolled out project briefing capabilities to allow Buyers to describe projects with complex scope in a structured way. We can then feed the data into the matching engine to provide our best recommendations. This is designed to allow us to understand post-order satisfaction with more context to enrich the data and the algo. This is the magic of Fiverr.

The second area of investment is our upmarket motion. Among our buyers, we have identified tens of thousands with a spending capacity significantly larger than the average spend on our marketplace today. It is mission-critical for us to unlock this potential, and that is why we created Fiverr Business. With Fiverr Business, we are a lot better at identifying those customers, understanding their freelance hiring needs, listening to their pain points and mapping out key product gaps.

In the last 12 months, we started to implement a number of initiatives with Fiverr Business in order to land, expand and improve the overall experience for those business buyers. This includes streamlining onboarding flows, creating a talent-focused browsing experience, stepping up the vetting process, and developing new marketing channels. We have seen early success in those initiatives: the number of buyers who spent over \$10,000 per year increased over 60% compared to a year ago, and Fiverr Business today already represents over 5% of total marketplace GMV. We have barely scratched the surface - there's so much potential ahead of us.

We believe the online freelancing market opportunity is vast and is in the early innings. As freelancing workflow moves online from offline, just as e-commerce has over the last two decades, we believe the Fiverr marketplace is ideally positioned to empower this workforce transformation for both businesses and freelancers. While the global economy goes through cycles and so does SMB spending, the consideration of incorporating a freelance workforce as part of the company's strategy talent planning is only going to become more relevant and more urgent. In fact, we see an emerging opportunity for freelancers as a viable alternative to fill talent gaps and provide cost savings for businesses that are cutting costs on full-time employees. A recent survey we

conducted in partnership with Censuswide indicates that over 80% of businesses are implementing hiring freezes or layoffs and around half of them plan to use freelancers to fill these gaps. Fiverr will be in a strong position to capture these opportunities when the time comes.

With that, let me turn the call over to Ofer who will share some financial highlights.

Ofer Katz

President and Chief Financial Officer – Fiverr International, Ltd.

Thank you Micha and good morning everyone.

Our Q2 results demonstrated the combination of a challenging macro environment and our ability to deliver strong execution with discipline and efficiency under such an environment. In Q2, revenue was \$85 million, up 13% y/y. The recent macro headwinds of increasing inflation, higher energy price, rising interest rate, and highly uncertain geopolitical risks had more significant implications on consumers, SMBs, and overall GDP than expected; and it is being felt not only in Europe but also in the U.S. and the rest of the world.

Fiverr responded quickly to this challenging macro landscape by streamlining our expenses and executing with the highest level of focus and efficiency. This led to Q2 Adjusted EBITDA of \$4.6 million, above the top end of our guidance, with an Adjusted EBITDA margin of 5.4%. In addition, post the quarter, as Micha mentioned, we further examined and recalibrate our cost structure and investment priorities, which resulted in the reduction of 60 employees. These people did not come from a specific function but rather across various departments in the company. The process was rigorous and thoughtful to ensure that our long-term roadmap remains intact. In fact, with the completion of some re-alignment of teams and organizations, we expect to be able to strengthen our core focus areas, accelerate the pace of execution, maximize team performance, and most important of all, maintain a highly motivated corporate culture.

Our underlying business is strong. We continue to drive a significant amount of new buyers to our marketplace every quarter and we continue to do it super efficiently. In

just one quarter, our Q2 cohort already generated revenue equivalent to 85% of our performance marketing dollars spent in the quarter. This highly disciplined, data-driven marketing approach will ensure that we only invest in areas where there is efficiency and will put us in a good position to stay agile during this market environment and lean in when opportunities arise.

We are also making exciting progress with our upmarket initiatives, from Fiverr Business that attracts large business buyers to product effort that encourage bigger projects and longer engagement. All of that is helping us to continue pushing spend per buyer higher at a fast pace even with the overhang of macro trends. Take rate continues to be strong and sustainable as we grow value-added products such as Promoted Gigs and Seller Plus. Going forward, we expect the take rate to remain stable with a modest upside.

Now, let's turn to guidance. For the third quarter of 2022, revenue is expected to be \$80.5 - \$82.5 million, representing year-over-year growth of 8%-11%. Adjusted EBITDA is expected to be \$5.0 - \$6.0 million, representing an Adjusted EBITDA margin of 6.7% at the midpoint. For the full year of 2022, we now expect revenue to be in the range of \$332 - \$340 million, representing year-over-year growth of 12%-14%. Adjusted EBITDA is expected to be in the range of \$19.5 - \$21.5 million, representing an Adjusted EBITDA margin of 6.1% at the midpoint.

Our Q3 and updated full-year revenue guidance reflect the more significant than expected macro headwinds that we saw in our marketplace in June. Specifically, European activity levels deteriorated modestly from our previous expectations, and the U.S. started to feel meaningful pressure as SMB sentiment grew more cautious in the last two months. The extended macro trends are expected to impact both existing cohort spending as well as the acquisition of new buyers. For the full year of 2022, the midpoint of our guidance represents active buyers to be down by a few percentage points compared to the last year and spend per buyer to grow in the low double digits.

With cost reductions and a strengthening focus, we expect to deliver strong Adjusted EBITDA for the second half of this year. We are committed to continuing operating with discipline and efficiency, delivering growth with positive Adjusted EBITDA, and

marching toward our long-term Adjusted EBITDA target of 25%. Together with a healthy balance sheet, I believe Fiverr is in a strong financial position to navigate through this market, with an unwavering focus on investing and building towards our long-term success.

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