fiverr.

Q2 | 2024

Shareholder Letter

FIVERR.COM

Vlad Hu, Seller
Founder @ SaaS Insiders
Boise, ID

ON THE COVER:
Vlad Hu, Seller
Founder SaaS Insiders
Boise, ID

"I'm grateful for the opportunities Fiverr has brought to me and my business. This platform is much more than just a place for finding business. I grew with it over the years and am happy with the direction it takes."

Vlad Hu is the Founder of SaaS Insiders, a custom software development agency that seeks to help world-class entrepreneurs implement and grow their SaaS products. Using his consulting and SaaS business model expertise, he provides technology services that help clients scale into profitable organizations.

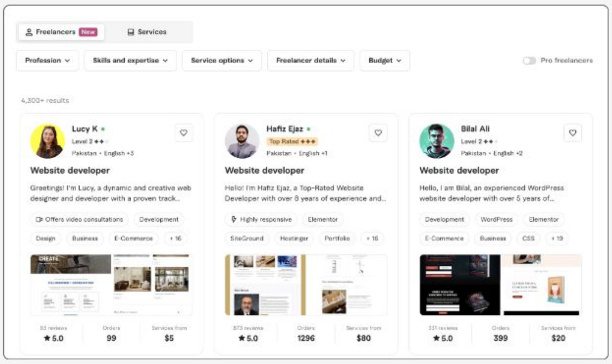
Vlad joined Fiverr in 2020, while working a full-time job as a software engineer, and initially focused on web design, copywriting, and data analysis. After one year, with significant growth in client demand around building chrome extensions, he transitioned to freelancing full-time. In the most recent year, AI has created a new chapter for his business, with his most popular service on Fiverr becoming building custom software products integrated with ChatGPT. His typical clients are insurance, real estate, and consulting entrepreneurs who seek to implement GenAI technology for their industry. Since late 2022, he has worked on over 70 projects, with about 80% of them being AI-related apps or integrations. Top AI applications include leveraging GenAI to generate content and make decisions, or utilizing custom AI chatbots for lead generation or customer support, and using GenAI to enrich internal knowledge bases.

To date, Vlad has helped over 100 clients through Fiverr, with typical project size ranging from $100 to $10K and beyond. Fiverr is the only online marketplace he uses and remains one of his largest channels. Depending on the month, it brings 20% to 50% of his business.

SUMMER 2024

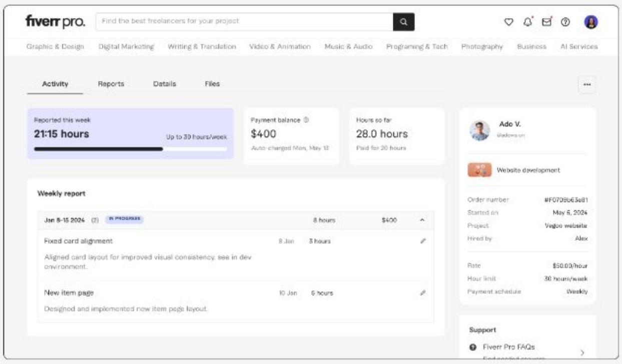
Product Release

Fiverr's recently launched Summer Product Release introduces new ways to search and engage with freelancers, deepens the integration of AI technology across the platform, and expands its offerings for Pro customers.



Professions Catalog

The newly launched catalog puts talent at the center of experience, allowing buyers to find profiles that exactly fit their job descriptions.



Hourly Rates

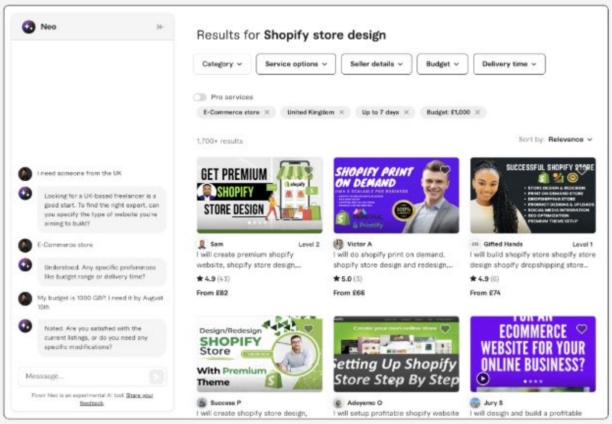
We are expanding our platform to enable new hourly based contracts to happen more seamlessly, allowing buyers to enter into long-term engagements with buyers for ongoing project and team needs.

Search with Neo

For new customers, Neo provides the guidance you need to navigate Fiverr's massive catalog of services and talent. For long-time loyalists, Neo is trained to understand your preferences and provide you the most relevant recommendations for your next project.

Briefing with Neo

Having Neo is like having a strategist by your side when it comes to project briefing. It transforms customers' ideas into a structured brief that not only looks good, but also delivers better business results.



Loyalty Program

Pro's new business rewards program offers 5% back on eligible purchases, giving customers more incentive to lean into the flexible workforce.

Business Partners

From sourcing to project management, business partners are available to Pro customers to help them find the right talent and deliver the business results in a most satisfactory way.

Summary

- **Solid Q2 execution:** Revenue came in above the midpoint of our guidance despite macro volatility as we continued to expand customer wallet share and drive take rate increase. We also delivered strong Adjusted EBITDA, near the top end of our guidance, and strong free cash flow as we continued to execute with strong discipline and efficiency.
- **Expanding product portfolio to create strong growth catalysts:** Our Summer Product Release includes the launch of a brand new profession-based catalog along with capabilities to hire talent for long-term engagement, making a major stride in expanding our direct addressable market. We also folded in a subscription-based software business through the acquisition of AutoDS, deepening our value proposition to the creator community and adding a durable revenue stream to our business with significant synergy and growth potential.
- **Optimizing capital allocation strategy to deliver shareholder value:** We are committed to setting clear capital allocation priorities and creating a tangible path for delivering shareholder value. We have successfully completed the $100 million buyback program announced in April. We aim to drive a steady and measurable increase in free cash flow combined with a dynamic capital return program for the next three years.
- **Reiterating full year guidance:** Our strategy to move upmarket and push into complex services continues to unlock long-term growth opportunities for our marketplace businesses. This is complemented by our expansion into the long-term freelancer hiring space and the addition of subscription-based software to our product portfolio. As such, we are raising the bottom end of our full-year guidance for both revenue and Adjusted EBITDA to reflect recent updates.

Second Quarter 2024 Key Results

REVENUE	$94.7 million 6% y/y growth	GROSS MARGIN	83.1% GAAP 84.4% NON-GAAP(1)
ACTIVE BUYERS (1)	3.9 million (8%) y/y growth	GAAP NET INCOME	$3.3 million
SPEND PER BUYER (1)	$290 10% y/y growth	ADJUSTED EBITDA(1)	$17.8 million
TAKE RATE (1)	33.0% 230 bps y/y improvement	ADJUSTED EBITDA MARGIN(1)	18.9%

(1) See "Key Performance Metrics and non-GAAP Financial Measures" for additional information regarding key performance metrics and non-GAAP metrics used in this shareholder letter

Financial Outlook

	Q3 2024	FY 2024	FY 2024 PRIOR GUIDANCE
REVENUE	$95.0 - $97.0 million 3-5% y/y growth	$383.0 - $387.0 million 6-7% y/y growth	$381.0 - $387.0 million 5-7% y/y growth
ADJUSTED EBITDA[1]	$17.0 - $19.0 million	$69.0 - $73.0 million	$67.0 - $73.0 million

To Our Shareholders

We delivered Q2 revenue of $94.7 million, above the midpoint of our guidance, as we continue to go upmarket and expand customer wallet share. Our seller monetization programs, including Promoted Gigs and Seller Plus, continued to grow with strong momentum. We also continued to execute with expense discipline and delivered Adjusted EBITDA of $17.8 million, representing Adjusted EBITDA margin of 18.9%. This led to a 180 bps margin expansion from a year ago, underscoring our commitment to make steady and measurable progress towards our long-term target of 25% in Adjusted EBITDA.

We continue to generate impressive cash flow. Cash from operating activities was $21.0 million, up 12% y/y. Free cash flow was $20.7 million, representing a 13% y/y increase and a 22% of free cash flow margin[1]. The strong cash flow generation and strong balance sheet allows us to return capital to investors while still investing in growth. We are pleased to report that we have completed executing the $100 million buyback program announced in April. **We believe our strategy to drive profitable revenue growth and optimize balance sheet and cash flow generation will maximize long-term shareholder value.**

After a strong start to the year with traffic trends meaningfully recovering from the second half of 2023, we saw some pullback in traffic in June, with Programming and Tech experiencing the biggest volatility. 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 trend, as the continued weakness in SMB sentiment persists. NFIB small business index continued to linger around at historical low levels[2]. The overall hiring environment also remained challenging. U.S. job openings were down 7% y/y, and job openings in the Information sector were down 17% y/y[3]. Professional staffing index, which specifically tracks temporary staffing hours, was also down 7% y/y in June, compared to 6% y/y decline at the end of 2023[4].

AI continues to be a net positive for us, with the growth of complex services more than offsetting the decline in simple services. In fact, we continue to see improving trends on simple services, as the overall mix of projects within these categories shift toward higher-end skills.

(1) See "Key Performance Metrics and non-GAAP Financial Measures" for additional information regarding key performance metrics and non-GAAP metrics used in this shareholder letter
(2) According to the NFIB Small Business Optimism Index.
(3) According to the U.S. Census Bureau Economic News Release on job openings by industry and region.
(4) According to SIA Bullhorn Staffing Indicator.

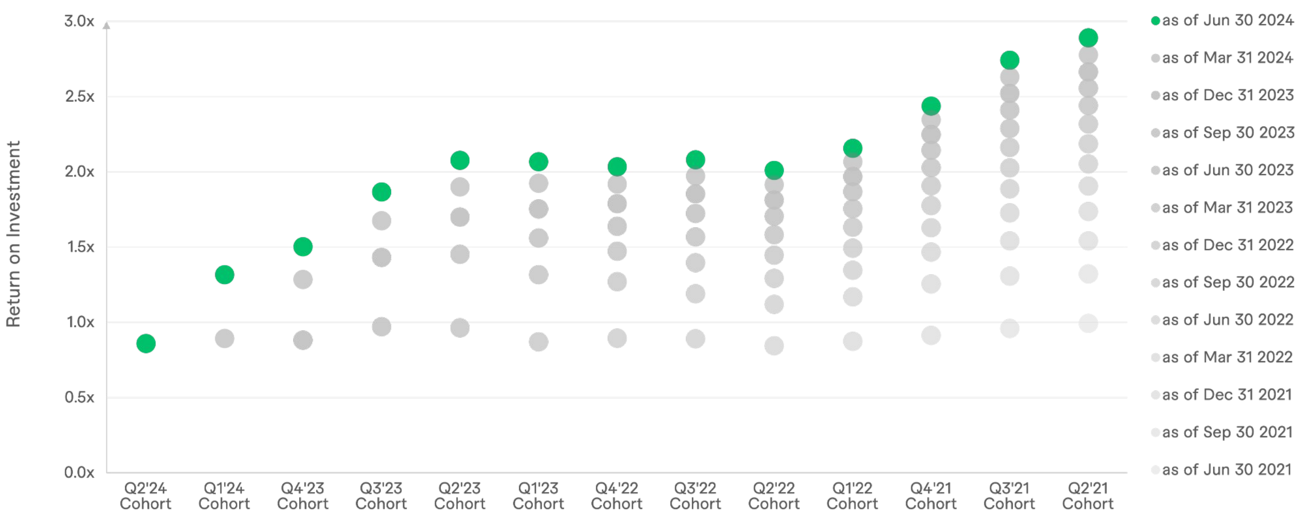
Writing and Translation, the vertical with the biggest exposure to simple services, saw an improvement of 10 percentage points compared to Q1 in terms of y/y growth rate. Music and Audio vertical also experienced an improvement in traffic trends this quarter. On the other hand, we are seeing the macro volatility in June moderating the demand for complex services, as the weakness in SMB spending hit higher-ticket-sized projects more than the smaller ones. All that said, let us be clear: we believe AI will continue to be a net benefit for Fiverr. AI remains very early in its evolution, and it is clear to us that by providing businesses with access to AI talent and services on a trusted marketplace is a massive opportunity globally, and we intend to lean into it.

Active Buyers, Spend per Buyer and Take Rate

As we mentioned in the past, we have shifted our paid marketing campaigns to primarily focus on buyers with larger lifetime value. This led to smaller, but higher quality buyer cohorts, which we believe is strategically beneficial to the business. Active buyers was 3.9 million for the twelve months ended June 30, 2024, representing a y/y decline of 8%. Spend per buyer for the period was $290, up 10% y/y, as we continued to see buyers spend more with Fiverr, and fulfill more complex projects. **Under the current macro environment, we believe driving more customer wallet share through product innovation and engagement efforts will continue to be the right strategy for our business.** We anticipate spend per buyer to continue its robust growth through the remainder of this year.

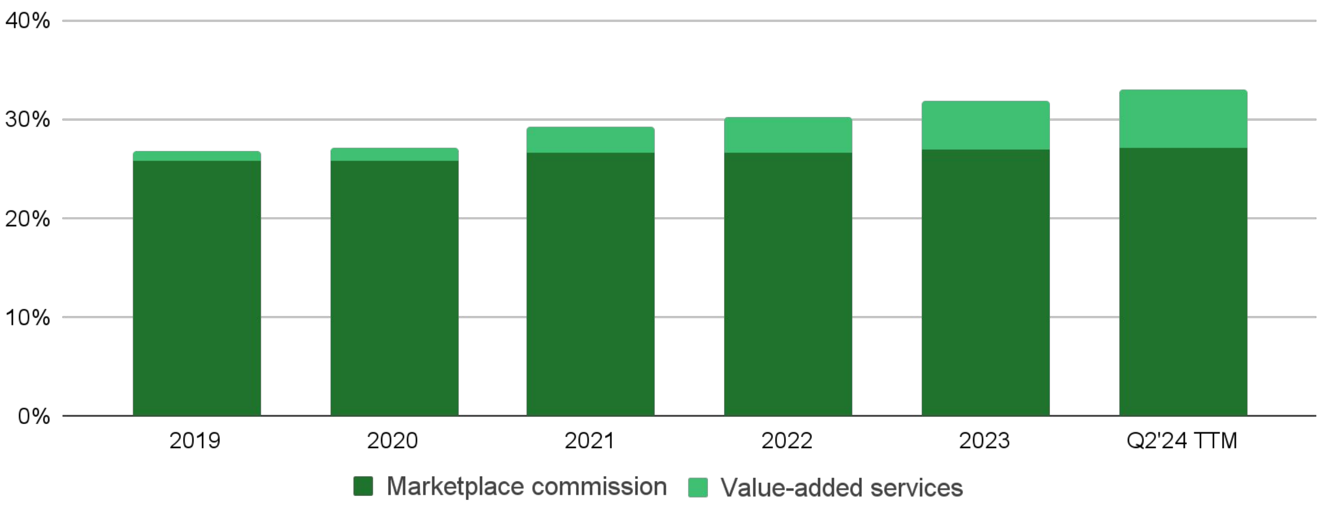
Cohort behavior remained stable with 67% of core marketplace revenue now coming from repeat buyers for the last twelve months ending June 30, 2024. We also remained highly efficient with our marketing investments. Our time to return on investments, or tROI, which represents the payback period of our performance marketing spend, continues to be at around 4 months. **Not only are we seeing payback periods remain highly efficient with our performance marketing investments, we also saw recent cohorts perform meaningfully better than 2021 and 2022 cohorts, as our strategy to focus on higher lifetime value buyers pays off.** From the chart below, you can see that the LTV to CAC ratio for Q2’23 reached over 2.1x after its first year, compared to 1.6x for Q2’22 cohort and 1.9 for Q2’21 cohort when they were at similar maturity.

Cumulative Revenue to Performance Marketing Investment Ratios



Overall take rate for the twelve months ended June 30, 2024 was 33.0%, representing a 230 bps increase over the same period last year and a 70 bps increase from last quarter. The step up in take rate was primarily driven by the continued strength of our Promoted Gigs and Seller Plus programs. **As seen from the chart below, over the past five years, the overall take rate for our business has increased 630 bps, the majority of which came from the growth and monetization of value-added services.** These products and services have proven to be greatly loved by our users, especially by sellers who are managing and growing their business on our platform. As we continue to expand our product portfolio, we believe there are many opportunities to further expand our footprint on the value chain and in turn the overall take rate of our business.

Take Rate Breakdown: Value-Added Services Driving Most of the Take Rate Expansion



Expanding Product Portfolio to Create Growth Catalysts

We are a product-driven company, and we migrated to a semi-annual product release cycle last year to remove friction from the marketplace and to focus on fewer yet more impactful product enhancements. A few days ago, we announced our [Summer Product Release], which included key rollouts to support our 2024 priorities. **As a reminder, our key priorities for 2024 are: 1) Aggressively grow our market share in complex service categories; 2) Expand adoption of Fiverr Pro; and 3) Develop proprietary AI applications that reduce friction, increase engagement and enhance the overall buyer and seller experience on our marketplace.**

Our Summer Product Release included significant product expansion to push on all those fronts. The overall addressable market for freelancing in the U.S. is $247 billion. Over the past 14 years, Fiverr has built a unique service catalog, which provides unmatched selection, speed, and cost efficiency to fulfill digital service projects. It works particularly well with well-scoped projects, as the transparency on timelines and deliverables has significantly reduced the frictions buyers and sellers typically experience in an offline setting. At the same time, we know that a meaningful portion of the addressable market lies in the long-term engagement with a freelancer, where freelancers act as part of a team with ongoing tasks and goals. Historically we did not compete in that market segment, but that is no longer the case.

As we increasingly focus on complex service categories and upmarket clients to accelerate growth, we believe expanding our direct addressable market would create a strong growth catalyst for us. As such, we launched a brand new profession-based catalog that enables search and keyword pages to be generated based on hiring needs; we implemented custom GenAI applications and expanded Neo™'s capabilities to allow in-depth job descriptions to be generated more seamlessly; and we built an entire new transaction infrastructure to enable time-based contracts and payments to be made on Fiverr. This is an exciting moment for our community. These are the capabilities that have been long awaited by our buyers and sellers, and we are receiving overwhelmingly enthusiastic feedback from them.

We are also tapping into M&A opportunities to create additional growth catalysts for our business. Very recently, we completed the acquisition of AutoDS, a leading platform that provides an end-to-end solution for dropshippers, including product research and sourcing, inventory management, and automated fulfillment. The platform is expected to bring tens of thousands of dropshippers into the Fiverr ecosystem, adding to an existing 150K+ dropshipping buyers on Fiverr. **The AutoDS acquisition expands our footprint on the value chain in categories with existing dominance and strong growth momentum, including dropshipping, website development, e-commerce management and social media marketing. It also creates a new subscription-based revenue stream for us with strong synergy and growth potential.**

Optimizing Capital Allocation Strategy to Drive Shareholder Value

As we navigate a dynamic environment with a focus on driving profitable growth and creating shareholder value, we are setting clear capital allocation strategies as we move forward. There are four capital allocation priorities for us:

- **Product innovation to drive growth.** As a product-driven company, our number one capital allocation priority is to invest in product innovation to drive future growth. We plan to continue to invest in product innovation to drive growth catalysts for 2024 and beyond, including some of the product initiatives that we discussed above.
- **Optimize our balance sheet to drive shareholder value.** We raised approximately $460 million in cash through a convertible note offering during COVID, and these notes mature in October 2025. Over the coming quarters, we will assess our options to address the 2025 convertible notes with our shareholders in mind. We have approximately $704 million in cash, cash equivalents, deposits and marketable securities on our balance sheet, which is ample liquidity to address our debt. At the same time, we operate a marketplace business that generates significant free cash flow. In 2023, we generated approximately $82M in free cash flow, and we expect to continue optimizing our balance sheet and cash flow generation going forward.
- **Share repurchases to further enhance shareholder value.** ,We announced the board approval of a $100 million share repurchase program a few months ago. We are pleased to report that we have completed executing the entire program. Overall, Fiverr repurchased 4,139,417 shares, representing approximately 11% of total shares outstanding, at an approximate volume-weighted average price per share of $24.16.

- **Strategic M&A to enhance our capabilities.** Our last capital allocation priority is strategic M&A. We have a very high bar in terms of strategic accretion, so any targets would need to significantly enhance our capabilities in AI, moving upmarket, vertical expansion and/or international expansion.

Over the past two years, we have demonstrated a proven track record of driving profitable growth and generating impressive free cash flow. Moving forward, we expect to continue executing with operational excellence and financial discipline. **We expect to reach an Adjusted EBITDA margin of 25% by the end of 2027 and a 14% three-year CAGR in free cash flow for 2024-2027. Together with active share count management, including share repurchase programs, this will lead to consistent growth in our free cash flow for the next three years.** Cumulatively we expect to generate over $300 million in free cash flow over the next three years, representing an increase of over 50% compared to free cash flow expected in 2022-2024. Fiverr's attractive business model and go-to-market strategy allow us to pursue opportunities as they arise, as well as scale back when necessary to adapt to the macro environment. We will also consider strategic high return opportunities, which can include incremental buybacks, de-levering our balance sheet and M&A opportunities. This gives us the ability to optimally balance growth and profitability in order to achieve a consistent upward trajectory for free cash flow per share.

Driving compounding free cash flow growth at 14% CAGR through 2027

~25%	$300M+	+14%
Adjusted EBITDA Margin 2027	Cumulative Free Cash Flow 2025-2027	Free Cash Flow CAGR 2024-2027

Conference Call Details

Fiverr's management will host a conference call to discuss its financial results on Wednesday, July 31, 2024 at 8:30 a.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. To participate in the Conference Call, please register at the link **here**.

Investor Relations
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Press
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CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2024 (Unaudited)	December 31, 2023 (Audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 188,729	$ 183,674
Marketable securities	182,609	147,806
User funds	156,294	151,602
Bank deposits	115,862	85,893
Restricted deposit	1,203	1,284
Other receivables	29,366	24,217
Total current assets	674,063	594,476
Long-term assets:		
Marketable securities	216,911	328,332
Property and equipment, net	4,526	4,735
Operating lease right of use asset	6,393	6,720
Intangible assets, net	13,755	10,722
Goodwill	81,992	77,270
Other non-current assets	1,254	1,349
Total long-term assets	324,831	429,128
TOTAL ASSETS	$ 998,894	$ 1,023,604
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables	$ 5,368	$ 5,494
User accounts	145,494	142,203
Deferred revenue	12,165	11,047
Other account payables and accrued expenses	47,074	44,110
Operating lease liabilities	2,575	2,571
Total current liabilities	212,676	205,425
Long-term liabilities:		
Convertible notes	456,580	455,305
Operating lease liabilities	3,882	4,482
Other non-current liabilities	4,111	2,618
Total long-term liabilities	464,573	462,405
TOTAL LIABILITIES	$ 677,249	$ 667,830
Shareholders' equity:		
Share capital and additional paid-in capital	681,887	640,846
Accumulated deficit	(357,404)	(284,358)
Accumulated other comprehensive income (loss)	(2,838)	(714)
Total shareholders' equity	321,645	355,774
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 998,894	$ 1,023,604

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(Unaudited)		(Unaudited)	
Revenue	$ 94,663	$ 89,385	$ 188,187	$ 177,341
Cost of revenue	16,024	15,632	31,472	31,298
Gross profit	78,639	73,753	156,715	146,043
Operating expenses:				
Research and development	21,855	23,289	45,488	45,176
Sales and marketing	41,324	38,870	83,476	80,920
General and administrative	17,764	15,604	34,215	31,103
Total operating expenses	80,943	77,763	163,179	157,199
Operating loss	(2,304)	(4,010)	(6,464)	(11,156)
Financial income, net	8,502	4,487	15,163	7,571
Income (loss) before income taxes	6,198	477	8,699	(3,585)
Income taxes	(2,931)	(250)	(4,644)	(460)
Net income (loss) attributable to ordinary shareholders	$ 3,267	$ 227	$ 4,055	$ (4,045)
Basic net income (loss) per share attributable to ordinary shareholders	$ 0.09	$ 0.01	$ 0.11	$ (0.11)
Basic weighted average ordinary shares	38,089,060	37,906,971	38,422,605	37,677,180
Diluted net income (loss) per share attributable to ordinary shareholders	$ 0.08	$ 0.01	$ 0.10	$ (0.11)
Diluted weighted average ordinary shares	38,755,863	41,192,132	39,180,421	37,677,180

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(Unaudited)		(Unaudited)	
Operating Activities				
Net income (loss)	$ 3,267	$ 227	$ 4,055	$ (4,045)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	1,606	1,654	2,756	3,379
Exchange rate fluctuations and other items, net	55	(95)	166	(6)
Amortization of premium and accretion of discount of marketable securities, net	(1,154)	378	(2,248)	1,234
Amortization of discount and issuance costs of convertible notes	638	635	1,275	1,269
Shared-based compensation	18,438	17,630	37,458	34,349
Changes in assets and liabilities:				
User funds	6,928	1,950	(4,692)	(13,956)
Operating lease ROU assets and liabilities	(177)	(164)	(275)	(412)
Other receivables	(2,197)	(1,773)	(5,173)	(2,747)
Trade payables	248	(2,569)	(580)	(6,354)
Deferred revenue	(777)	(788)	1,118	831
User accounts	(6,632)	(1,608)	3,291	13,355
Account payable, accrued expenses and other	(131)	3,141	4,134	4,699
Non-current liabilities	859	117	882	642
Net cash provided by operating activities	20,971	18,735	42,167	32,238
Investing Activities				
Investment in marketable securities	-	(118,450)	(30,734)	(181,008)
Proceeds from maturities of marketable securities	68,512	108,621	108,597	162,921
Investment in short-term bank deposits	(9,000)	-	(36,238)	-
Proceeds from short-term bank deposits	2,974	58,781	6,351	58,751
Acquisition of business, net of cash acquired	(9,163)	-	(9,163)	-
Purchase of property and equipment	(309)	(367)	(687)	(695)
Capitalization of internal-use software and other	-	(8)	(20)	(13)
Net cash provided by investing activities	53,014	48,577	38,106	39,956
Financing Activities				
Repurchases of common stock	(77,101)	-	(77,101)	-
Proceeds from exercise of share options	1,388	433	1,830	2,183
Tax withholding in connection with employees' options exercises and vested RSUs	441	(387)	220	(56)
Net cash provided by (used in) financing activities	(75,272)	46	(75,051)	2,127
Effect of exchange rate fluctuations on cash and cash equivalents	(58)	100	(167)	37
Increase (decrease) in cash, cash equivalents and restricted cash	(1,345)	67,458	5,055	74,358
Cash, cash equivalents and restricted cash at the beginning of period	190,074	94,789	183,674	87,889
Cash and cash equivalents at the end of period	$ 188,729	$ 162,247	$ 188,729	$ 162,247

KEY PERFORMANCE METRICS

	Twelve Months Ended June 30, 2024	2023
Annual active buyers (in thousands)	3,888	4,222
Annual spend per buyer ($)	$ 290	265

RECONCILIATION OF GAAP TO NON-GAAP GROSS PROFIT

(in thousands, except gross margin data)

	Q2'23	Q3'23	Q4'23 (Unaudited)	Q1'24	Q2'24	FY 2022 (Unaudited)	FY 2023 (Unaudited)
GAAP gross profit	$ 73,753	$ 77,457	$ 76,029	$ 78,076	$ 78,639	$ 271,418	$ 299,529
Add:							
Share-based compensation	619	632	633	678	499	2,520	2,497
Depreciation and amortization	885	731	709	613	791	6,065	3,253
Non-GAAP gross profit	$ 75,257	$ 78,820	$ 77,371	$ 79,367	$ 79,929	$ 280,003	$ 305,279
Non-GAAP gross margin	84.2%	85.2%	84.6%	84.9%	84.4%	83.0%	84.5%

RECONCILIATION OF GAAP NET INCOME (LOSS) TO NON-GAAP NET INCOME AND NET INCOME PER SHARE

(in thousands, except share and per share data)

	Q2'23	Q3'23	Q4'23 (Unaudited)	Q1'24	Q2'24	FY 2022 (Unaudited)	FY 2023 (Unaudited)
GAAP net income (loss) attributable to ordinary shareholders	$ 227	$ 3,025	$ 4,701	$ 788	$ 3,267	$ (71,487)	$ 3,681
Add:							
Depreciation and amortization	1,654	1,321	1,287	1,150	1,606	10,185	5,987
Share-based compensation	17,630	17,557	16,792	19,020	18,438	71,755	68,698
Impairment of intangible assets	-	-	-	-	-	27,629	-
Contingent consideration revaluation, acquisition related costs and other	-	-	(359)	9	109	(10,613)	(359)
Convertible notes amortization of discount and issuance costs	635	635	637	637	638	2,527	2,541
Taxes on income related to non-GAAP adjustments	-	-	-	-	(71)	-	-
Exchange rate (gain)/loss, net	(108)	98	42	128	(156)	(1,141)	(131)
Non-GAAP net income	$ 20,038	$ 22,636	$ 23,100	$ 21,732	$ 23,831	$ 28,855	$ 80,417
Weighted average number of ordinary shares - basic	37,906,971	38,164,996	38,501,155	38,756,151	38,089,060	36,856,140	38,066,203
Non-GAAP basic net income per share attributable to ordinary shareholders	$ 0.53	$ 0.59	$ 0.60	$ 0.56	$ 0.63	$ 0.78	$ 2.11
Weighted average number of ordinary shares - diluted	41,192,132	41,389,621	41,440,827	41,758,840	40,909,724	40,662,057	41,304,907
Non-GAAP diluted net income per share attributable to ordinary shareholders	$ 0.49	$ 0.55	$ 0.56	$ 0.52	$ 0.58	$ 0.71	$ 1.95

RECONCILIATION OF GAAP NET INCOME (LOSS) TO ADJUSTED EBITDA

(in thousands, except Adjusted EBITDA margin data)

	Q2'23	Q3'23	Q4'23 (Unaudited)	Q1'24	Q2'24	FY 2022 (Unaudited)	FY 2023 (Unaudited)
GAAP net income (loss)	$ 227	$ 3,025	$ 4,701	$ 788	$ 3,267	$ (71,487)	$ 3,681
Add:							
Financial expenses (income), net	(4,487)	(5,678)	(6,914)	(6,661)	(8,502)	(3,624)	(20,163)
Income taxes	250	308	605	1,713	2,931	577	1,373
Depreciation and amortization	1,654	1,321	1,287	1,150	1,606	10,185	5,987
Share-based compensation	17,630	17,557	16,792	19,020	18,438	71,755	68,698
Impairment of intangible assets	-	-	-	-	-	27,629	-
Contingent consideration revaluation, acquisition related costs and other	-	-	(359)	9	109	(10,613)	(359)
Adjusted EBITDA	$ 15,274	$ 16,533	$ 16,112	$ 16,019	$ 17,849	$ 24,422	$ 59,217
Adjusted EBITDA margin	17.1%	17.9%	17.6%	17.1%	18.9%	7.2%	16.4%

RECONCILIATION OF GAAP TO NON-GAAP OPERATING EXPENSES

(in thousands)

	Q2'23	Q3'23	Q4'23 (Unaudited)	Q1'24	Q2'24	FY 2022 (Unaudited)	FY 2023 (Unaudited)
GAAP research and development	$ 23,289	$ 23,490	$ 22,054	$ 23,633	$ 21,855	$ 92,563	$ 90,720
Less:							
Share-based compensation	6,463	6,227	5,836	6,836	5,897	23,828	24,310
Depreciation and amortization	203	196	191	201	193	801	799
Non-GAAP research and development	$ 16,623	$ 17,067	$ 16,027	$ 16,596	$ 15,765	$ 67,934	$ 65,611
GAAP sales and marketing	$ 38,870	$ 40,521	$ 39,767	$ 42,152	$ 41,324	$ 174,599	$ 161,208
Less:							
Share-based compensation	3,477	3,392	3,166	3,436	3,389	17,196	13,304
Depreciation and amortization	476	314	309	264	553	2,889	1,601
Acquisition related costs	-	-	-	-	-	(24)	-
Non-GAAP sales and marketing	$ 34,917	$ 36,815	$ 36,292	$ 38,452	$ 37,382	$ 154,538	$ 146,303
GAAP general and administrative	$ 15,604	$ 15,791	$ 15,816	$ 16,451	$ 17,764	$ 51,161	$ 62,710
Less:							
Share-based compensation	7,071	7,306	7,157	8,070	8,653	28,211	28,587
Depreciation and amortization	90	80	78	72	69	430	334
Contingent consideration revaluation, acquisition related costs and other	-	-	(359)	9	109	(10,589)	(359)
Non-GAAP general and administrative	$ 8,443	$ 8,405	$ 8,940	$ 8,300	$ 8,933	$ 33,109	$ 34,148

RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES TO FREE CASH FLOW

(in thousands)

	Q2'23	Q3'23	Q4'23 (Unaudited)	Q1'24	Q2'24	FY 2022 (Unaudited)	FY 2023 (Unaudited)
Net cash provided by operating activities	$ 18,735	$ 23,399	$ 27,549	$ 21,196	$ 20,971	$ 30,112	$ 83,186
Purchase of property and equipment	(367)	(223)	(135)	(378)	(309)	(1,198)	(1,053)
Capitalization of internal-use software	(8)	(44)	(3)	(20)	-	(1,000)	(60)
Free cash flow	$ 18,360	$ 23,132	$ 27,411	$ 20,798	$ 20,662	$ 27,914	$ 82,073

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 income (loss), non-GAAP net income (loss) per share and free cash flow, as well as operating metrics, including GMV, active buyers, spend per buyer, take rate and tROI. Some amounts in this shareholder letter may not total due to rounding. All percentages have been calculated using unrounded amounts.

We define each of our non-GAAP measures of financial performance, as the respective GAAP balances shown in the above tables, adjusted for, as applicable, depreciation and amortization, share-based compensation expenses, contingent consideration revaluation, acquisition related costs and other, income taxes, amortization of discount and issuance costs of convertible note, financial (income) expenses, net. Non-GAAP gross profit margin represents non-GAAP gross profit expressed as a percentage of revenue. We define non-GAAP net income (loss) per share as non-GAAP net income (loss) divided by GAAP weighted-average number of ordinary shares basic and diluted. We use free cash flow as a liquidity measure and define it as a net cash provided by operating activities less capital expenditures. We define free cash flow margin, as free cash flow divided by revenue.

We define GMV or Gross Merchandise Value as the total value of transactions ordered through our platform, 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 or other services on our platform 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 acquisition 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 certain 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 capital expenditures and to evaluate our capacity to expand our business. In addition, we believe that free cash flow, which we use as a liquidity measure, is useful in evaluating our business because free cash flow reflects the cash surplus available or used to fund the expansion of our business after the payment of capital expenditures relating to the necessary components of ongoing operations. Capital expenditures consist primarily of property and equipment purchases and capitalized software costs.

Free cash flow should not be used as an alternative to, or superior to, cash from operating activities. In addition, Adjusted EBITDA, Adjusted EBITDA margin, non-GAAP gross profit, non-GAAP gross margin, non-GAAP operating expenses, non-GAAP net income (loss) and non-GAAP net income (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 income (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 metrics 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, free cash flow and other non-GAAP metrics used herein is not necessarily comparable to similarly titled captions of other companies due to different methods of calculation.

See the tables above regarding reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures.

We are not able to provide a reconciliation of Adjusted EBITDA and Adjusted EBITDA margin guidance for the third quarter of 2024 and the fiscal year ending December 31, 2024, and long term to net income (loss), the nearest comparable GAAP measure, because certain items that are excluded from Adjusted EBITDA and Adjusted EBITDA margin cannot be reasonably predicted or are not in our control. We are also not able to provide a reconciliation of free cash flow guidance for the fiscal year ended December 31, 2024 or the three year period from 2024-2027 to cash from operating activities, the nearest comparable GAAP measure, because certain items that are reflected in free cash flow cannot be reasonably predicted or are not in our control. In particular, in the case of Adjusted EBITDA and Adjusted EBITDA margin, we are unable to forecast the timing or magnitude of share based compensation, amortization of intangible assets, impairment of intangible assets, income or loss on revaluation of contingent consideration, other acquisition-related costs, convertible notes amortization of discount and issuance costs and exchange rate income or loss, and in the case of free cash flow, we are unable to forecast property and equipment purchases and capitalized software costs, in each case, as applicable without unreasonable efforts, and these items could significantly impact, either individually or in the aggregate, GAAP measures in the future.

Forward Looking Statements

This shareholder letter contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this shareholder 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 including our long term free cash flow per share expectations, our business plans and strategy, our expectations regarding the integration of AutoDS, the growth of our business, AI services and developments, our product portfolio, our stock repurchase plan and expected shareholder value, our customer relationships and experiences, 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: risks related to the acquisition of AutoDS and our ability to successfully integrate AutoDS into our business, political, economic and military instability in Israel, including related to the war in Israel; our ability to successfully implement our business plan within adverse economic conditions that may impact the demand for our services or have a material adverse impact on our business, financial condition and results of operations; our ability to attract and retain a large community of buyers and freelancers; our ability to generate sufficient revenue to achieve or maintain 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 dependence on traffic to our website; our ability to maintain user engagement on our website and to maintain and improve the quality of our platform; our operations within a competitive market; 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 data privacy, data protection and cybersecurity; our ability to manage our current and potential future growth; our dependence on decisions and developments in the mobile device industry, over which we do not have control; 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 and our ability to manage the business and economic risks of international expansion and operations; our ability to achieve desired operating margins; our ability to comply with a wide variety of U.S. and international laws and regulations; our ability to attract, recruit, retain and develop qualified employees; 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; and the other important factors discussed under the caption “Risk Factors” in our annual report on Form 20-F filed with the U.S. Securities and Exchange Commission (“SEC”) on February 22, 2024 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 our 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 shareholder letter 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 shareholder letter relate only to events or information as of the date on which the statements are made in this shareholder letter. 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.