November 9, 2022

Fiverr International, Ltd. (NYSE: FVRR)

Prepared Remarks

Q3 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 third quarter that ended September 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 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
Chief Executive Officer & Director – Fiverr International, Ltd.

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

We are pleased to report strong results today. In the third quarter of 2022, revenue was $82.5 million, at the top end of our guidance, and Adjusted EBITDA was $6.6 million, above our guidance range. This performance is the direct result of the actions we took to strengthen the flywheel of our marketplace - that is improving our efficiency in buyer acquisition, optimizing our catalog, building a better product experience, and in turn driving more buyers to buy more from our platform. Our decision a few months ago to optimize our cost structure and accelerate our pace toward long-term margin targets is also paying off. Our Q3 Adjusted EBITDA margin of 7.9% represents a 250 basis points improvement from Q2, with a strong gross margin of 82.8% and cost savings across all expense lines.

The scalability, efficiency and highly diversified nature of our business model is setting us apart in navigating through this economic cycle. We operate a global marketplace where millions of buyers purchase digital services from our platform across over 550 categories. This allowed us to detect the shifting macro conditions as early as March. Our bottom-up go-to-market strategy, with a highly efficient and data-driven approach, allows us to stay disciplined when overall SMB spending is facing headwinds. In fact, we took a step ahead and even accelerated our pace of improving the bottom line when growth became more expensive.

In addition, we have a strong balance sheet and are generating strong cash flow. We believe maintaining a healthy cash flow and cash balance is essential in protecting shareholder value in the current macro environment and gives us the ability to focus on long-term value creation. We tremendously value the trust we have earned from you, and we are committed to staying responsible and transparent with our shareholders.

Now all of this, in my opinion, is providing us with a great setup for future growth. For the rest of my remarks, I want to talk about why we have confidence, conviction and optimism in our future growth.

First, the opportunity in front of us is huge and the secular trend of moving toward freelancing is only growing. According to our latest annual Freelance Economic Impact Report, U.S. independent professionals earned a total of $247 billion in 2021. To quantify this further, according to a recent survey by McKinsey, 36% of the American workforce makes their living through independent work, a considerable increase from 27% back in 2016. Talents are increasingly demanding freedom, flexibility and control of their own work-life balance. Furthermore, macro volatility is also driving talent to embrace freelancing more. We saw this during the COVID pandemic, and in fact, in recent months, with inflation driving up the cost of living and a flurry of companies conducting layoffs, we saw a record level of sellers coming to our marketplace.

Now, many of you have asked me why we haven't seen the marketplace benefit from those trends yet. The answer is two-fold. One - we looked into the industry hiring trends around the last economic cycle and noticed that during an economic downturn, freelance demand gets hit first, before full-time hiring and oftentimes leads broader GDP trends. That said, freelance demand is also expected to be the first to recover as we climb out of the downturn and the rebound is typically of a bigger magnitude compared to full-time employment and the GDP growth itself. So the first part of the answer is a matter of timing and we believe Fiverr will be the first to benefit from the upswing down the road.

The second reason is the gap between talent and businesses in terms of adopting freelancers. As evident in our recent back-to-work survey, businesses lag behind freelancers in terms of willingness to embrace remote work and flexibility in engagement. This is why we see smaller businesses ahead of larger businesses in terms of utilizing freelancers for a much bigger portion of their talent needs. That said, we believe large businesses are getting there - the recent news around Amazon's $8 billion annual cost of employee attrition just illustrates the urgency and necessity of a change in talent strategy.

All of this is to say that we are in the right place at the right time and we expect significant tailwinds for our business. Now, the strong flywheel inherent in Fiverr's business model will allow us to benefit from those tailwinds much more than others. You have witnessed the significant uplift in scale we experienced during the COVID cycle. I'm super proud that we were able to hold onto most of those gains - active buyers were 4.2 million, nearly double what we had three years ago; spend per buyer grew over 60%; and take rate grew 340 basis points. This speaks to the loyalty of our buyer base, their increasing need for digital transformation, Fiverr's increasing wallet share as well as us extending our role in the value chain. And we are going to continue investing in our flywheel during this economic downturn, building products, improving supply, and delighting our customers, so we will be in a stronger position to take advantage of the rebound.

The last thing I want to highlight is our progress on Fiverr Business. The vision we have there and the innovations we are making. We are going to significantly speed up the bottleneck in business adoption that we talked about earlier. We are not building another staffing business to help you hire a contractor, developer or project manager; rather, we want to provide businesses with the simplicity and nimbleness to engage with freelancers without the overhead of onboarding, contracting, time tracking and compliance. Think of the difference between a leased data center versus a cloud computing solution. You'll have a much faster setup, much lower management overhead and much more scalability and flexibility. We are already seeing many mid-sized companies using Fiverr's solutions extensively today. Our cover story in the shareholder letter highlights how the Head of Creative Studio at a gaming company utilizes Fiverr as a content generation hub, leveraging services across voiceover, 3D animation, video projects and banner ad design. It's amazing to see how much productivity and efficiency Fiverr can bring to his team. This is one of the many examples that give us the confidence and ambition to extend those tools to every business. We are investing in many areas including increasing brand awareness among business customers, building partnerships and educating potential customers on use cases, improving our product across matching, transaction, communication and productivity tools and lastly, expanding our supply into more specialized skill sets with demonstrated industry experiences. There is a lot to do, and there is no better timing than now to dig deeper and relentlessly focus on building out these innovations.

I'll wrap it up today with advice I received when I was a young entrepreneur: "there are only two ways to fail a startup, you either run out of money or you give up." We are probably a long way from what you would consider a young startup, but I think in many ways, the advice still applies. The scale we have and the strong cash flow we enjoy will allow us to build toward long-term sustainable growth, and our passion, commitment and excitement toward the future are absolutely unwavering.

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

Ofer Katz
President & CFO – Fiverr International, Ltd.

Thank you Micha and good morning everyone.

We delivered strong results in Q3 across all metrics. Revenue of $82.5 million came in at the top end of our guidance, representing y/y growth of 11%. Adjusted EBITDA was $6.6 million, above the top end of our guidance, with an Adjusted EBITDA margin of 7.9%. We were able to improve our marketing efficiency, strengthen our product focus to drive conversion and retention, and continue to make progress going upmarket - all of these benefited from our re-aligned focus on our core marketplace and Fiverr Business. The cost optimization exercise we did in July also paid off, allowing us to improve organizational efficiency as a whole and accelerate our trajectory toward long-term Adjusted EBITDA margin target of 25%. Our Adjusted EBITDA is also indicative of the strong cash flow we generate, and together with a healthy balance sheet, it demonstrates the strength of our business and provides us with a strong financial position to pursue long-term growth opportunities.

Active buyer were 4.2 million, up 3% y/y. We are encouraged to see active buyer count stabilize, especially given the large cohort size we acquired in the past two years, as well as the macro headwinds that we are facing today. The resilience of our active buyers reflects the strong cohort behavior in our marketplace. Even in an uncertain environment like now, Fiverr provides an essential platform for SMBs to execute their digital strategy with speed and cost efficiency unmatched anywhere else.

We also had strong execution on the new buyer growth front. We saw improvement in marketing efficiency - some of the work we did in pushing social and influencer channels as well as a more granular campaign optimization contributed to the efficiency gain. We also saw a nice uplift in traffic following our launch of a new brand campaign “Team Up” in August. Lastly, I think coming out of the peak summer travel season provides some uplift for September and October activities.

Spend per buyer for Q3 was $262, up 12% y/y, as we continue to make progress in going upmarket. The number of buyers that spent over $10,000 annually grew over 50% year-over-year. We continue to round up our offerings on Fiverr Business. This includes our continuous investments in the quality of our business supply, the iteration on the product and building targeted marketing funnels. This quarter, we also started rolling out some value-added services for our business customers. Project Partner is such an example that removes not only critical friction in our customer experience but also creates additional revenue opportunities for Fiverr.

Take rate for the quarter was 30% in Q3, representing a year-over-year expansion of 160 basis points. This is consistent with our long-term strategy, where we believe our take rate will be sustainable with modest upside over time, driven by value-added services. Promoted Gigs continue to expand its exposure on the marketplace, which now includes recommendation carousels and mobile app listings. Seller Plus implemented a two-tier pricing model this quarter in order to expand adoption and allow more sellers to take advantage of the advanced tools in the program.

Now, let’s turn to guidance. For the fourth quarter of 2022, revenue is expected to be $79.8 - $85.8 million, representing year-over-year growth of 0% - 8%. Adjusted EBITDA is expected to be $7.0 - $8.0 million, representing an Adjusted EBITDA margin of 9.0% at the midpoint. For the full year of 2022, we expect revenue to be in the range of $334 - $340 million, representing year-over-year growth of 12%-14%. Adjusted EBITDA is expected to be in the range of $22.0 - $23.0 million, representing an Adjusted EBITDA margin of 6.7% at the midpoint.

Our Q4 and updated full-year revenue guidance are largely consistent with our previous outlook in August. We do not have a revision on the macro assumptions underlying the Q4 guidance, and given the continued macro uncertainty, we think it’s prudent to provide a guidance range that is a bit wider than our typical Q4 guidance. The Adjusted EBITDA guidance reflects our continued discipline and commitment to accelerate the pace towards our long-term Adjusted EBITDA target of 25%.

To close, I want to say that Fiverr is in a much stronger financial position compared to when we went public over three years ago. We are three times larger in terms of revenue, with strong

Adjusted EBITDA profitability - an improvement of over 23 percentage points - and we enjoy strong cash flows and a healthy balance sheet. We believe that the macro headwinds we are facing are temporary in nature. I am confident that we are well positioned to navigate through this macro cycle and we, as a company, are making prudent and smart investments to capture the exciting opportunity of shaping the future of work.

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