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Fiverr International, Ltd. (NYSE: FVRR)

Prepared Remarks

Q1 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 first quarter ended March 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. 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.

Thanks Jinjin. Good morning everyone and thanks for joining us today.

The first quarter of 2022 was solid with 27% revenue growth year-over-year. It was also the first time in any Q1 that we achieved Adjusted EBITDA profitability, a quarter when we typically front load marketing investments. The quarter started with strong momentum in January and February. In March, the macro landscape shifted, and our marketplace is currently seeing the impact.

With higher inflation, recovering travel demand and more in-person activities, spending patterns are shifting for consumers, and therefore business spending. We started to see this shift on our marketplace in March and it has continued into the second quarter. We are not sure the duration of the shift or the magnitude and are adjusting our guidance range to reflect the uncertainty. Ofer will walk you through that in a moment.

We are making progress on our goals for the year and continue to invest in Fiverr Business. While the small business or consumer-driven part of our business is feeling the impact of the macro shift, Fiverr Business is gaining momentum. Growth is robust, with over 50% growth in accounts year-over-year and an even higher increase in order value year-over-year. Not only are we seeing strong growth in accounts, but we are also seeing increasing wallet share per account as business accounts add freelancers to their workflows and find more categories to meet their needs. We believe the tight labor market provides us with a tremendous opportunity to help businesses leverage their current employees and augment their teams' skill sets.

We are focusing our investment in Fiverr Business because we believe the opportunity ahead has never been more clear. Over the last two quarters, we have vetted tens of thousands of quality sellers on our marketplace in order to provide Fiverr Business customers with the top 1% of talent. We have redesigned the Fiverr Business listing page to focus on eight freelancers instead of 48 offerings to streamline and humanize the buyer's decision making process. And this has led to a meaningful increase in conversion, especially for more expensive service offerings. Business buyers want to know and trust who they are working with, and we are now highlighting the freelancer along with the offering. We have added features such as a *Saved Freelancer List* that organizations can share between teams; this allows easy reference for repeat buying. We are starting to redirect marketing investments to target Fiverr Business. We have added Customer Success Managers to facilitate Business account onboarding and provide high-touch support if needed on the marketplace. The needs of small and medium businesses are more sophisticated than individual offerings. And we are listening to our customers and creating a marketplace that works for their needs, for more complex projects, for more departments throughout an organization. Fiverr's upmarket journey is just beginning.

Businesses who utilize Fiverr Business can gain an advantage over their competitors. They are able to grow faster by leveraging their employees for essential roles while outsourcing many tasks to freelancers on Fiverr. Managers do not have to go through the process of hiring, which is becoming increasingly difficult in today's labor market. Companies will be able to scale up and down based on their workload without any headcount friction; profit margins will be better, growth faster. Teams that know how to leverage the Fiverr marketplace talent pool will have more creative projects. Becoming embedded in a business's human capital infrastructure is not a quick task, but those who are willing to be on the leading edge of human capital procurement should enjoy a first mover advantage over their competitors. It is our mission to enable this. The way human capital is procured is in its early innings and we are leading the way!

One example is an interior designer team in Germany who uses 3D rendering services on Fiverr to increase productivity - once a design is sketched, it's passed onto a freelancer on Fiverr who will turn a floor plan and product listings into a 3D visualization of a fully furnished room. It is all done with a few clicks to order, a $100 budget, and the customer gets a delivery in 3 days. Not only does utilizing Fiverr provide the designer with unmatched speed and value, but more importantly it allows the designer to spend more time with clients. This customer has embedded 40 different Fiverr freelancers into their 3D workflow, and they are constantly placing orders.

Another example is a North American event planner that lost most of their work when Covid lockdowns occurred and reduced their workforce. As they are rebuilding, it has become problematic to recruit and retain employees, so the company's human capital strategy is to embed Fiverr freelancers into their project teams. They have 150 Fiverr freelancers that they currently work with across numerous categories. As each project requires different skill sets, the breadth of supply on Fiverr provides them with an unparalleled flexibility.

We believe the use cases are nearly infinite for embedding Fiverr's freelancers into businesses. Employees who know how to utilize the Fiverr marketplace will have a major productivity tool that allows employers to leverage their internal workforce many times over.

The contracts that are available to businesses on Fiverr are being expanded to make usage seamless for larger and longer projects. Milestone payments were recently introduced to facilitate larger projects by enabling progress payments. Subscriptions are quickly being adopted as both buyers and freelancers find recurring relationships beneficial. The new Fiverr Business landing page encourages business buyers to contact sellers for more complex projects to ensure the scope of the project matches both parties' expectations. These efforts will meaningfully expand the ticket size on our marketplace. We've done this type of expansion before. When I started the company, everything on Fiverr was $5, then we lifted the price cap so sellers can price their services anywhere. Then in 2016 we introduced Packages that allow sellers to offer tiered pricing bundles. In both cases, our marketplace experienced a step function leap in the project size and ticket size. We know this playbook very well, and we are running it again now.

We are also investing towards our vision of a Talent Cloud, a holistic solution that utilizes talent-as-a-service. Our marketplace today is already serving as a Talent Cloud solution for small businesses - we know many of our smaller customers, leverage Fiverr to do everything from product to marketing to operations. But larger organizations with more sophisticated deliverables require a more comprehensive, holistic solution. Imagine as a marketing manager, some days you need someone to help you do a simple video editing, other days, you need a full-fledged TV commercial production, then there are times you are looking for someone to help you manage content on your social media channel. With Talent Cloud, you don't even need to think about how to allocate and distribute the workflows, but rather just turn to Fiverr, and our system will assemble the team, distribute the workflows, and take the project to the finish line. This is the talent-as-a-service we are envisioning, let our technology do the optimization and customers can focus on growing their businesses.

This is an ambitious vision and there is a significant amount of work to do to accomplish our vision. No one has ever done anything like this. I think the technology we are building here is not only cutting edge, but is also going to provide a sustainable competitive advantage for us and the businesses who embrace it. We are also unlocking additional addressable markets by creating disruptive solutions and significantly increasing freelancer adoption across businesses of all sizes. We believe these investments will meaningfully drive our future growth and ultimately increase long-term shareholder value.

I'm super proud of everyone on our team who is executing towards our vision - their talent and dedication is inspirational. Our hearts are with our colleagues in the Ukraine and their compatriots. I'm also grateful for our community of businesses and freelancers who trust us and help us build the future of work together.

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.

We delivered strong execution in Q1 amid a volatile macro environment. January and February were as expected. In March we started to see the impact of the shifting macro landscape within our marketplace, particularly in Europe. Revenue came in near the top end of guidance at $86.7 million, up 27% y/y, driven by 11% growth in active buyers, 17% in spend per buyer, and a 240 basis points expansion in the take rate. Adjusted

EBITDA was $3.9 million, above the top end of our guidance, with an Adjusted EBITDA margin of 4.5%. First quarter revenue was a record for us, on top of the tremendous growth we had over the past two years. This scale allowed us to be Adjusted EBITDA positive in a first quarter for the first time this early in the year when we typically front load investments.

We remain highly efficient with our marketing investments for both brand and performance marketing. Brand marketing is a continuous, long-term investment; when coupled with high levels of customer satisfaction, the awareness builds intangible brand equity over time. We are pleased with how the brand investments are materializing. We recently conducted a survey that indicated Fiverr had the strongest freelancer brand in the U.S. and that brand awareness increased 30% from Q1 of 2021 when we last did the survey. On performance marketing, tROI was around 4 months in Q1, about the same as the previous quarter and still well within our 12-month target threshold. As we move upmarket, we are targeting higher lifetime value customers with bigger wallets and better retention potential which allows us to lean into performance marketing a bit more. On a longer-term basis, for cohorts that have been with us for 5+ years, we are seeing overall LTV to CAC of over 5 times. For cohorts we acquired at the beginning of COVID, we are already seeing LTV to CAC of nearly 3 times, in just two years. The strong unit economics gives us the confidence to continue to invest in performance marketing throughout various macroeconomic conditions.

As Micha mentioned, we are going upmarket across the organization. Our product teams are solving more complex problems and providing more intuitive tools, our operations team is vetting high quality supply and ramping customer support, and our upmarket marketing capability is expanding. In our operating metrics we see buyers who spend over $500 contribute to 64% of our marketplace, up from 63% last quarter and 59% in 1Q’21. According to our study, companies with 20-200 employees on average spend $15,000 a year on freelancers. We believe there is significant potential to grow buyers’ spend levels by increasing wallet share from our existing buyers and adding high-value buyers. We also continue to invest in category expansion in order to increase cross category purchases and expand our TAM.

We are pleased that our take rate continued to grind higher with deeper penetration of value added services. During the quarter, Promoted Gigs continued to grow and contribute to our take rate expansion, as we improved sellers' targeting capabilities and bidding conversion. The program continues to enjoy strong seller retention, as the sellers pay only when they get a click to their listing page and the automatic bidding formula sets guard rails to optimize seller ROI. On Seller Plus, we continue to roll additional features into the program such as buyer insights and buyer request notifications. The growth of these two programs continues to demonstrate our ability to command a strong take rate by building products, expanding our offerings, and providing value to our community.

Now, let's turn to our guidance. For the second quarter of 2022, revenue is expected to be $86.0 - $87.5 million, representing year over year growth of 14%-16%. Adjusted EBITDA is expected to be $3.0 - $4.0 million, representing an Adjusted EBITDA margin of 4.0% at the midpoint. For the full year of 2022, we now expect revenue to be in the range of $345 - $365 million, representing year-over-year growth of 16%-23%. Adjusted EBITDA is expected to be in the range of $10 - $17 million, representing an Adjusted EBITDA margin of 3.8% at the midpoint.

We have reduced and widened our guidance range to reflect the higher variability in the changing macro landscape as Micha discussed at the start of the call. January and February were solid as expected. In March and April, our business was impacted by a mix of macro factors, with Europe being particularly vulnerable. Compared to what we expected at the beginning of the year, in March our European revenue was below trend by low double-digits and the U.S. by a few percentage points. In April, Europe revenue was further impacted although more moderately and the U.S. was stable. As a reminder, Europe contributed to just under 30% of our revenue and the U.S. approximately half. Our direct exposure to Russia and Ukraine was less than 1%. The midpoint of our revenue guidance reflects our current expectation of our business based on the trends we are seeing now. The high-end of our guidance assumes an improvement in the macro environment that drives a rebound in consumer and business spending. The low end of our guidance contemplates a continued deterioration in Europe and moderate contagion to the rest of the world.

At the midpoint, we expect active buyers to grow in the low single digits for the full year and be largely flat in Q2 as we lap the large cohorts from the first half of last year. Spend per buyer is expected to grow in the low-to-mid teens year-over-year for 2022 with a steady sequential cadence. Take rate is expected to be steady with modest upside. The large improvements we saw in 2021 should moderate to less than 100 basis points for full year 2022.

On the expense side, we do not expect to materially adjust our investment levels for the year as growth continues to be our top priority. We expect to continue investing in personnel for customer support and engineering and expect modestly lower gross margin and higher R&D as a percentage of revenue for the year. Sales & Marketing as a percent of revenue should improve slightly. While our steadfast investment strategy is tempering the progress towards our long-term target model, we remain committed to achieving long-term Adjusted EBITDA margins of 25% as our business scales.

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