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Fiverr International, Ltd. (NYSE: FVRR)
Prepared Remarks
Q4 2021 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 fourth quarter ended December 31, 2021. 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.

Good morning everyone and thanks for joining us on the call today.

2021 was a remarkable year for us. It was a year of significant growth, in terms of both revenue and profitability. For full-year 2021, revenue was $298 million, representing a 57% year over year growth and a 178% growth on a two-year basis. We hit one billion dollars in annual GMV for the first time ever. We also generated an adjusted EBITDA of $23 million in 2021, implying an adjusted EBITDA margin of 7.7%, compared to 4.8% just a year ago and (16.8%) two years ago. Our results continue to demonstrate our ability to not only deliver superior growth rates, but also profitable growth. We are committed to our disciplined approach in prioritizing growth while making progress towards our long-term profitability target.

2021 was also significant in terms of the important investments we made towards our future. We substantially grew Fiverr Business to become a marketplace of fully vetted talent, made it easier for customers to join it and created automatic segmentation mechanisms to offer Fiverr Business to the most relevant audience. We established the Seller Tools group to focus on building the seller ecosystem, including the launch of Seller Plus. We successfully integrated and.co, a company we acquired and turned it into Fiverr Workspace, and we continued expansion of Promoted Gigs. We launched partnerships with leading B2B vendors to build co-branded sections on our marketplace with expert sellers offering a variety of vendor-specific services to their customers. Leveraging the creative talent pool from WorkingNotWorking, we are building the next-gen AI-powered creative service platform to allow brands to assemble top-quality creative teams in just a few clicks. We acquired CreativeLive, further strengthening our professional development content library to expand our Learnings and Development module for freelancers. We acquired the freelancer management system Stoke Talent to expand our addressable market by enabling offline freelancer relationships for our customers as well. Last but not least, we continue to expand our international presence with non-English speaking countries now contributing to 32% of our total revenue.

All of these investments are essential building blocks towards our long-term vision of becoming an all-in-one talent cloud solution for businesses of all sizes.

Fiverr has turned twelve today. Having started Fiverr at the beginning of the 2010's gives us a good perspective of the changes that we are all witnessing. The way people work is going through a fundamental transformation right now. On one hand, you've got more people leaving their jobs than ever before. People are not simply leaving one company to join another, but rather leaving the traditional workforce altogether. Based on a recent survey we conducted, 54% of HR professionals and hiring managers said that people who have left their companies end up working for themselves as freelancers or start their own businesses. On the other hand, businesses are struggling to attract and retain talent for the long term. The time they take to hire a full-time employee continues to increase. And they face massive skill gaps to stay competitive in an ever-changing technology landscape.

What this means is that businesses must go through a substantial change in how they think about working with talent in their workforce infrastructure in the next few years. This feels to me a lot like the shift companies had to go through when they moved their on-site hosted computing capabilities to cloud computing in the past 15 years.

I remember back in the day when building a startup required you to first set up your own local computing capabilities and data centers, host your own servers and go through massive installation and configuration headaches. Only then could you actually start building what you really wanted to build. And then very quickly your servers got outdated, slowed down, or ran out of space, so there was the ongoing need for maintenance and updates. It was very expensive, very inefficient, and most important of all, very few companies in the world had the resources to be able to set up and regularly upgrade to the best computing power with the latest technology. Cloud computing completely changed all of that. Not only is it easier, cheaper, and faster to set up, with a minimum ongoing maintenance overhead, but also it empowers businesses of all sizes, big or small, and businesses of all industries, tech companies or not, to utilize the latest computing technology directly from the cloud.

When you think about the workforce, it's very much the same. The challenges that businesses face with a static full-time workforce, such as a slow hiring process, being expensive to maintain and retain, the lack of flexibility, and being hard to keep up with the latest skills, are very similar to the challenges of an on-premises IT infrastructure.

By leveraging Fiverr's Talent Cloud solution, businesses can not only become more nimble and cost-efficient but also be able to access the best talent on a project-by-project basis, whether that project is simple and quick or complex and more long-term. And for our industry, it is even more powerful, because, on the other side of the solution, we are dealing with talent instead of servers. This means that at the same time we are building this talent cloud solution, we are also providing talent across the world with more opportunities, better opportunities, empowering them to pursue the work that they love and to enjoy the lifestyles that they dream of. That is a world worth building.

We believe the opportunity of talent cloud migration will continue to grow and evolve, and it will substantially expand our overall addressable market in the coming years. We are not only empowering the transition from offline to online freelancers, but also the transition from a static workforce to a dynamic talent cloud solution. We envision a future where companies will keep a smaller team that focuses on core competency while leveraging the talent cloud solution for the execution of most projects. We've seen this already happen with Hollywood studios. In the early 1920's, studios owned the entire filmmaking process, from creation to filming to distribution. Over time, they have switched to a system where their workforce primarily consists of freelancers. Ad hoc teams are assembled on a project-by-project basis and disbanded after the project is complete. It streamlines the operation and focuses resources on generating the best outcome rather than managerial overhead. This is where we are heading - building a platform to help businesses develop and execute a robust talent cloud solution.

As we celebrate Fiverr's twelfth birthday and as we kick off this new year, the team and I could not be more excited about the journey we are embarking on. As I mentioned at the beginning of my remarks, a lot of the work has already gone into building this talent cloud platform. The fact that we've grown so much in the past two years allows us to substantially accelerate our pace of investments in our vision, while at the same time march towards our long-term profitability model. We are more excited than ever and for all the reasons I laid out, believe that we are still in the very early stages of our journey. We expect to remain disciplined with our financial strategy and continue executing in a consistent manner.

With that, I'll turn the call to Ofer who will share some financial highlights.

Ofer Katz
President and Chief Financial Officer – Fiverr International, Ltd.

Thank you Micha for these inspiring remarks and good morning everyone.

Q4 was a strong quarter across all dimensions. Revenue was $79.8 million, up 43% y/y, driven by 23% growth on active buyers, 18% on spend per buyer, and a 210-basis point expansion on take rate. During the quarter we saw that seasonality trends were largely normalized, with strong engagement during weekdays, and quieter days during weekends and holidays.

E-commerce related categories continued to be very strong in our marketplace, as businesses invest in content, marketing, and web development to lean into the holiday shopping season. We also saw strong trends from emerging technologies such as blockchain, crypto, and NFT. The democratization of how digital skills, such as creative or digital marketing, could be monetized, creates a huge opportunity for the freelancers on our platform, and the freelancer economy in general. Fiverr, once again, is at the forefront of recognizing those technological trends and empowering our community to grow and thrive.

We are also very happy to see the continued momentum in our cohort retention. For the second year in a row, we see that mature cohorts experienced over 110% year-over-year retention. For newer cohorts in 2019 and 2020, we are also seeing better revenue retention trends compared to a historical cohort at a similar life stage. We are very encouraged to see that the outsized cohorts we acquired during the pandemic are at least as good as, if not better than our older cohorts. While the data trend is still early, we do believe that our work in quality, retention, and category expansion has paid off.

We continue to enjoy high customer satisfaction scores - as of December 31, 2021, our NPS for buyers is 67 and NPS for sellers is 80. Our strong retention trends also reflect the macro tailwind of how businesses are embracing the freelancer resource and increasing their adoption. The higher revenue retention across our cohorts also has a compounding impact on the overall lifetime value of our buyer base, which allows us to invest more into the top of the funnel.

On buyer acquisition, organic channels continued to be very strong and benefited from the significant growth in the unaided brand awareness among our target customers. We also continue to be highly efficient with our performance marketing investment - tROI for Q4 was approximately 4 months. We were able to keep our marketing dollars highly efficient as we focus on driving higher quality buyers, increasing our ability to retain buyers and expanding their spend levels, as well as continued channel diversification and improving automation. We launched our new out-of-home campaign in January in New York. We are also accelerating our investments in TV, for both traditional and programmatic channels. We are committed to a data-driven and disciplined approach to drive growth and marketing efficiency, and we expect to continue improving sales and marketing leverage on a year-over-year basis.

Now to guidance. For the first quarter of 2022, revenue is expected to be $85 - $87 million, representing year-over-year growth of 24-27%. Adjusted EBITDA is expected to be $1.5 - 3.5 million, implying a Q1 adjusted EBITDA margin of 2.9% at the midpoint. For full-year 2022, we expect revenue to be in the range of $373 - $379 million, representing year-over-year growth of 25-27%. Adjusted EBITDA is expected to be in the range of $27 - 33 million, representing an adjusted EBITDA margin of 8% at the midpoint.

Given the unusual growth spikes we experienced last year, I'd like to provide additional color on the cadence of our business outlook implied in our 2022 guidance. We expect the tough comps in the early part of 2021 will weigh on the growth rates during the first half of 2022, and that growth will accelerate in the second half of the year. We expect active buyers to grow in high single digits and spend per buyer to grow in teens in terms of y/y growth rates for the full year of 2022. Take rate is expected to be steady with modest upside.

As Micha mentioned, the opportunity to empower the talent cloud migration is big and we have a strong roadmap to build Fiverr's Talent Cloud solution. We will continue investing in those initiatives in 2022. Growth continues to be our top priority, at the same time, we are committed to take a disciplined approach to continue generating leverage and progressing towards our long-term EBITDA margin target.

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