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Fiverr International, Ltd. (NYSE: FVRR)

Prepared Remarks

Q3 2023 Earnings Call

Management Discussion

Brian Lan

Investor Relations Manager – 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, 2023. 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 key performance metrics and non-GAAP financial measures, including Adjusted EBITDA and Adjusted EBITDA margin. Further explanation and a reconciliation of each 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

Founder & Chief Executive Officer – Fiverr International, Ltd.

Thank you, Brian. Good morning everyone, and thank you for joining us.

Q3 was another strong quarter as we continued to accelerate our revenue growth and drive EBITDA margin expansion. Both revenue and adjusted EBITDA came at the top end of our guidance range. A number of factors drove the strong performance. The cohorts in our core marketplace continue to stabilize from the COVID growth spikes and our push upmarket has allowed us to grow spend per buyer at a strong pace. Finally, healthy growth in our value-added services contributed to our take rate of over 31%. All of this was extremely well executed with continued expense discipline, which is reflected in the strong delivery of our Adjusted EBITDA margin. These results underscore the power of our business model and the progress we are making to solidify our position as the global leader of freelancing marketplaces. This, together with the strength and resilience of the Fiverr team, allows us to focus, adapt and thrive amid external changes.

As you all know, Israel went through a horrific attack a month ago. Our first priority has been to help our employees, their families, and the Fiverr community and support those the deadly attacks impacted. As some of our employees are being called up, we are ensuring their families will get what they need while they are on the front lines. As a company, we are quickly adapting so that we continue to operate and execute at the highest level of focus and consistency, thanks to our hybrid operation that's already in place.

Since we laid out our strategic focus this year to strengthen our core marketplace and accelerate our pace to push upmarket, we have been working on knocking down barriers that prevent buyers from shopping more often or fulfilling more complex projects. We know that Fiverr's unique transaction model and global access to talent provide great convenience and access to our customers that is unmatched anywhere else, but there are also pain points, such as the difficulty of finding the best talent among so many choices, the uneasiness when a project is only partially scoped, or the

headache when a project requires coordination between multiple freelancers. This is why we created products such as Fiverr Neo™, Fiverr Enterprise, and the project planning service in Fiverr Pro to address those issues.

The vision for Fiverr Neo™ is quite wild - we imagine Neo™ will serve as a personalized recruiting expert that can help our customers more accurately scope their projects and get matched with freelance talent, just like a human recruiter, only with more data and more brain power. What we have done so far is leverage the existing LLM engines to allow customers to express their project needs in natural language, which Neo™ will synthesize and define the scope before matching the client with a short list of choices pulled from the entire Fiverr freelancer database. It's a substantial step forward from the existing experience and streamlines the time the customer needs to make an informed decision. To improve the experience further, we continue incorporating cutting-edge technology into our production to advance the algorithm and provide a much faster processing speed. We already see thousands of customers utilizing the service, and early results show a positive impact on match quality and delivery.

On the Fiverr Business Solutions side, we are targeting higher-end customers, expanding our wallet share, and expanding our product suite to accommodate more use cases that are sometimes difficult to execute through a typical marketplace order. When a customer comes through the funnel without a well-defined project scope - sometimes they need a domain expert to help carry out a specific function of the business, say a social media marketing expert; sometimes they have a vaguely scoped project with an evolving roadmap, say building a complex mobile app - in both cases, they are looking for a freelancer to engage for an extended period of time. This is where Fiverr Enterprise comes in. Through Fiverr Enterprise, clients can manage an ongoing engagement with a pool of freelance talent, continuously updated tasks and project milestones, and ongoing budget management and payment tools. This allows us to address the freelancing needs of larger businesses that otherwise might be stuck with the complexity of creating detailed scopes for open-ended goals at the beginning of a project.

Finally, in Fiverr Pro, we are seeing great traction for the newly introduced Project Partner service. Since its launch last year, we've seen many business customers utilizing the service to fulfill significantly larger projects. We've further expanded the offering to include separate project planning and project management services to cater to a wider range of businesses. The project planning offering is a popular option among customers who need help with scoping and staffing, and we have found that most customers who use the project planning capabilities end up utilizing the full project management capabilities as well.

As you can see, there have been a lot of exciting developments at Fiverr this year. Leveraging the flywheel of the marketplace built over the years, we are taking our business to the next level with new products and services that cater to a wider range of customers and their needs. There is tremendous potential for us to expand our customer base and grow their wallet share with us, and we should be able to build on these opportunities in the years ahead.

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

Ofer Katz

President & Chief Financial Officer – Fiverr International, Ltd.

Thank you, Micha, and good morning everyone.

We delivered another quarter of strong results driven by the resilience of our cohorts, our recent upmarket efforts, as well as growth in our value-added seller services. Revenue was \$92.5 million, representing a year-over-year growth of 12.1%. Adjusted EBITDA was \$16.5 million, or 17.9% in Adjusted EBITDA margin. Both were at the top end of our guidance range. For the second quarter in a row, we have also achieved GAAP profitability thanks to our ongoing efforts in improving our operational efficiency. All of this demonstrated the impact of the strategy we set at the beginning of the year, the strong execution of our team, as well as the strength of our business model.

Our annual active buyers were at 4.2 million, and spend per buyer improved to \$271, up 4% year-over-year and a \$6 increase from Q2. Our Fiverr Business Solutions continues to make meaningful progress as we add more partners to Certified and onboard customers to our premium marketplace, Fiverr Pro. These efforts help to drive the accelerated pace of our spend per buyer increase as our buyer base continues to evolve towards higher quality, higher budget demographics. We continue to maintain strong efficiency and unit economics in our performance marketing. This quarter, our tROI for performance marketing remains very stable at slightly over 3 months. On a longer-term basis, our LTV to CAC over three years remains healthy at over 3x and for five years exceeds 4x. We expect to continue to invest as efficiently as possible as we push forward on our upmarket efforts and focus our investments on higher-value buyers.

Our Q3 take rate improved to 31.3%, representing a year-over-year expansion of 130 basis points, as we increased seller monetization of Promoted Gigs and Seller Plus. We continue to expand and optimize our ad placement for Promoted Gigs while Seller Plus benefited from the introduction of our two-tier pricing model that we launched a year ago. We are excited to report that Seller Plus subscribers have now reached 25,000, more than doubled from the end of last year. Our improving take rate signifies the value

that we are able to provide for our freelancers and we continue to develop additional tools to help them grow their businesses.

Now turning to guidance. In the immediate weeks after the onset of the war, we experienced some volatility in our marketplace, primarily from buyers and sellers in countries in the region. This volatility has already created a headwind to revenue this quarter. While some of this volatility has subsided, the risk of it increasing again remains, and we have incorporated this risk into our outlook for the remainder of the year. As such, for the full year of 2023, we are maintaining our revenue guidance in the range of \$358 - \$365 million, representing a year-over-year growth of 6%-8%. We are raising the Adjusted EBITDA range to be \$58 - \$60 million, representing an Adjusted EBITDA margin of 16.3% at the midpoint. This implies fourth-quarter revenue guidance of \$88.1 - \$95.1 million, representing a year-over-year growth of 6%-14%, reflecting the increased uncertainty for the remainder of the year. We expect Adjusted EBITDA guidance of \$14.9 to \$16.9 million, representing an Adjusted EBITDA margin of 17% at the midpoint for the fourth quarter.

That said, just as how we have navigated our business through a series of macro conditions in the past few years, we are confident in our ability to continue executing with the strongest discipline and focus, and the long-term thesis of our business and our strong market leading position remain intact.

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