November 13, 2019

Fiverr International, Ltd. (NYSE: FVRR)

Prepared Remarks

Q3 2019 Earnings Call

Management Discussion

Jinjin Qian
Vice President, Strategic Finance - Fiverr International, Ltd.

Thank you, operator, and good morning ladies and gentlemen. Thank you for joining us on Fiverr's earnings conference call for the third quarter ended September 30, 2019. Please note that this call is being webcast on the investor relations section of the company's website. Full details of our results and additional management commentary are available in our shareholder letter which can be found on the investor relations section of our website at investors.fiverr.com.

Joining me on the call today are Micha Kaufman, Founder and CEO, and Ofer Katz, CFO. Before we start, I would like to remind you that certain matters discussed today are forward-looking statements that are subject to risks and uncertainties relating to future events and/or the future financial performance of Fiverr. Actual results could differ materially from those anticipated in these forward-looking statements.

Additional information that could cause actual results to differ from forward-looking statements can be found in Fiverr's periodic public filings with the U.S. Securities and Exchange Commission, including those factors discussed under the "Risk Factors" section in Fiverr's final prospectus under Rule 424(b) filed with the SEC. The forward-looking statements in this conference call are based on the current expectations as of today, and Fiverr assumes no obligation to update or revise them, whether as a result of new developments or otherwise.

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 thanks for taking the time to join us on the call today.

The third quarter was extremely strong for Fiverr. Revenue grew 42% year-over-year, and we saw strong growth across all of our key metrics. We see that momentum in the freelance economy is higher than it has ever been, and businesses around the world are increasingly using Fiverr to connect and transact with freelancers to get projects completed quickly, easily and efficiently.

In addition to growth, we continue to demonstrate a clear path to profitability. Margins were strong. We drove operating leverage with a 430 basis point improvement in adjusted EBITDA margin.

Now, in light of our excellent results for the first nine months of the year, together with the strength of our business, we are raising guidance for 2019. We now expect revenue in the range of $105.5 million and $106.5 million, reflecting 40% - 41% growth over 2018. We are also raising our EBITDA outlook for the year, as Ofer will touch on.

During our first earnings call I introduced Fiverr, so I won’t go into too much detail today, but for those who are new, we are a marketplace that connects buyers and sellers for digital services. Fiverr is a technology company, not a staffing company. Our proprietary technology allows freelancers to productize digital services into a SKU-like catalog, and this makes the experience of buying a digital service from a freelancer as simple as buying something on Amazon. We have a powerful, comprehensive platform that uses advanced algorithms to optimize and leverage mass quantities of big data, and this makes everything simple for both buyers and sellers.

On the buyer side, our approach and technology eliminate friction, and what this means is that on Fiverr they can order digital services like an animation for a video game, a logo design for their business, voiceover for a radio commercial, and much more. And what is most exciting is that it can be done in approximately 15 minutes, whereas traditionally it takes about 30 days just to find and hire a freelancer. This is unmatched in the industry, and the power and simplicity of our platform is what’s driving our financial results.

On the seller side, they don’t need to waste time bidding on jobs they may end up not winning. We give them the tools needed to run their business, collaborate with clients and ensure they are satisfied with the job, and at the same time, our e-learning platform helps them continually improve their skills. Fiverr takes away the stress of being a freelancer and allows a seller to focus on what they like best - being creative and providing customers with a product they love.

Before Ofer takes you through the financials, I'd like to share a few business highlights from Q3.

First, we significantly expanded our catalog and deepened our penetration into larger businesses with the launch of four industry stores in Gaming, E-commerce, Architecture, and Politics. We have observed that adding new categories increases the lifetime value of our buyers since they repeat and buy more frequently as well as buy across more categories. It also increases our total addressable market. By packaging gigs into a vertical store, we enhance the experience for both buyers and sellers. And this is definitely something you should expect to see more of in the future.

Second, our focus on moving upmarket is working. Spend per buyer increased $6 from $157 in Q2 to $163 in Q3, and the percentage of high-value buyers with an average spend of over $500 reached 52% of our core business. While it is still very early, we are encouraged by the response to Fiverr Studios. The product is gaining traction and since its launch at the end of July, hundreds of freelancers have now teamed up to provide larger and more complex gig offerings on our marketplace. The average Studio's project is nearly 7 times the price of the average gig. We are very excited about the potential of how Fiverr Studios can drive spend for our buyers in the long run.

Beyond the financials, Fiverr Studios is an example of how we want to drive the business. We need to make it easier for buyers to find the services they need, large or small, and at the same time enable collaboration among freelancers.

The third highlight I'd like to share is that our global footprint is expanding. On our last call, we talked about our launch in Germany, and we see strong acceleration there as a result of a local marketing campaign in Q3, with activity and buyer levels well above marketplace averages. It is our intention to leverage our learnings from the initial launch in Berlin to other areas in Germany and to other German-speaking countries.

This will create a repeatable playbook for further expansion. We are matching this effort by expanding support for foreign-currency transactions, which is important in driving local audiences.

And finally, a focus on technology and data drives our decision-making and powers our business.

In addition, we are investing heavily in mobile. Mobile is highly strategic for us. But, it's not just about the transactions that happen on mobile, it is the transactions that mobile is involved in. We understand that in today's always on-the-move market, people constantly switch between desktop and mobile. And we want to be present and support them in all those scenarios. With one of the best-in-class mobile apps, mobile is becoming a touchpoint for the majority of transactions on Fiverr today. And we are constantly working on ways to optimize the user experience and the back-end across our marketplace to widen our lead in the online freelancing space.

Fiverr had an excellent Q3, which will stack up to an even stronger performance for the year. While we are happy with our results and momentum, it's even more exciting to think about what's to come - especially when we look at the global trends towards freelancing and the accelerating needs of businesses for digital services.

This is a great opportunity to say how much we appreciate the hard work of the Fiverr team around the world.

We look forward to seeing many of you at the NY UBS conference in December and at future events. And with that I'll hand over to Ofer who will review our financial results - he has some really great updates for you.

Ofer Katz
Chief Financial Officer – Fiverr International, Ltd.

Thank you, and good morning everyone.

As Micha mentioned, Fiverr delivered strong revenue growth of 42% in the third quarter. This was led by robust growth in all three key metrics as well as the new initiatives that we outlined in our shareholder letter.

In terms of key operating metrics,

- Active buyers grew 16% year over year to $2.3 million
- Spend per buyer grew $6 from $157 in Q2 to $163 in Q3
- And our take rate grew 140 basis points year over year to 26.6%

Active buyer growth accelerated in the third quarter this year. We saw very strong trends in organic channels that benefited from the brand marketing investments throughout the year and the ongoing investments we make on marketing automation and SEO. We continue to see very stable trends across our annual buyer cohorts, and repeat buyers contributed 58% of core marketplace revenue.

In addition, our performance marketing investments continue to be highly efficient. tROI, or time to return on investments, for Q3 was close to 1x, which means nearly all our performance spend during the quarter had already been recovered during the quarter. This is phenomenal. It is important to note that while we are happy to see Q3 buyers' spending pattern stronger than a typical cohort at this stage, there is no fundamental change in our acquisition strategy, and we expect tROI for our future quarters to remain consistent with historical levels.

Spend per buyer growth was also strong during the quarter. The industry stores that we launched during the quarter increased cross-category purchases among our buyers. We also grew our German market substantially, and buyers in Germany have higher spending capacity. Lastly, the growth of our content marketing platform enables us to attract buyers with deeper wallets.

Our take rate continued to grow at a modest pace during the quarter. We continue to generate incremental revenue streams from seller tools and foreign currency products. Our content marketing subscription platform continues to grow at a healthy pace, and this contributes to the overall take rate as well. We are very confident that our take rate is sustainable - especially when you consider our strategic position and the significant value we add to each transaction. We believe there is further room to the upside on take rate as we move forward.

Now, let's take a look at the margins. Q3 non-GAAP gross margin came in at 80.8%, a year over year decrease of 140 basis points. As we mentioned before, our gross margin will fluctuate. This is based on the mixed impact of increasing efficiency on our core marketplaces and offset by the growth of content marketing subscriptions, which has a higher take rate but lower gross margin. Going forward, we expect gross margin to remain stable around the 80% level, with quarter over quarter fluctuations that are based on the dynamics of different products on our platform.

Our third quarter adjusted EBITDA was negative $4.4 million and our EBITDA margin was negative 15.8%. This is a 430 basis point improvement, primarily driven by continued leverage gain on R&D and sales and marketing. This bottom-line performance and our strong unit economics show that we are making significant progress on our path to profitability.

Now, to guidance.

For Q4, we expect revenue of $28 million to $29 million, representing year over year growth of 35% - 40%. We expect Q4 adjusted EBITDA between negative 4.3 million and negative $3.5 million, representing a negative 13.7% adjusted EBITDA margin at the midpoint. We expect continued leverage from sales and marketing and R&D expenses. In addition, two quarters after the IPO, we expect to see G&A expenses stabilize and start to gain leverage as well.

We are raising our full-year guidance based on our performance in the first nine months of the year as well as positive trends in our business. For full year 2019, we now expect revenue between $105.5 million and $106.5 million, representing annual revenue growth of 40% - 41%. We expect adjusted EBITDA of negative $19 million to negative $18.2 million, representing a negative 17.5% adjusted EBITDA margin at the midpoint.

We are very happy with our performance in Q3 and look forward to ending the year on a strong note, carrying positive momentum into 2020.

I will now turn the call over to the operator to open it up for questions. Operator?