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Fiverr International, Ltd. (NYSE: FVRR)

Prepared Remarks

Q2 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 second quarter ended June 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, CEO and Co-Founder, and Ofer Katz, CFO. Before we start, I would like to remind you that the following discussion contains forward-looking statements including, but not limited to, Fiverr's market opportunities and future financial results which involve risks and uncertainties that may cause actual results to differ materially from those discussed here.

Additional information that could cause actual results to differ from forward-looking statements can be found in Fiverr's periodic SEC filings including those factors discussed under the risks section in Fiverr's form F-1. 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. I'm happy and honored to welcome you all to our first earnings call as a public company. We delivered a stellar second quarter with revenue growth of 41% year over year, along with significant operating leverage which translated to 1,130 basis point improvement in adjusted EBITDA margin. The results show strong momentum in our business, and our guidance reflects our continued excitement for the second half of 2019.

For today's call, I'll start with a brief overview of Fiverr and then give you some highlights from Q2 and our priorities for the rest of 2019 and beyond. Ofer will then go through our results; financial trends and our guidance. Then we will be happy to take your questions.

We started Fiverr in 2010 with two important observations. First, we noticed that the way people wanted to work was changing. The 9 to 5, "always in the office" mentality was shifting toward a desire for flexibility. The data we gathered demonstrated that this was not a phenomenon limited to only one country or one sector. There was a profound shift underway, and we saw significant opportunity to create a technology platform to enable the freelancing economy and capitalize on the change in the way people work.

Second, it was clear that working with freelancers was challenging, and anything but simple. As an entrepreneur trying to build a company, I was frustrated by the friction associated with finding the right freelancer, negotiating with them, collaborating, and getting a result I was happy with.

On the seller side, it was clear that even the most talented and hardworking freelancers were having a hard time communicating with prospective businesses about themselves and finding clients, especially clients who were not physically located nearby. Beyond that, typically they had to spend hours bidding on projects they did not end up winning. Moreover, they had to spend large amounts of time managing their business rather than doing the work they love and making more money.

At a very high level those are the reasons Fiverr exists, and why we're thriving. But it's really our approach that sets us apart. We didn't want to create yet another staffing company. Instead, we chose to innovate, developing proprietary technology that is powering an elegant, simple to use marketplace that enables buyers and sellers to transact for digital services. We productize digital services into a SKU-like catalog, making hiring a freelancer for a project as simple as buying something on Amazon. Today, with nearly ten years of product development and transaction experience, we have a beautiful and extensive platform that uses advanced algorithms to optimize and leverage mass quantities of big data, making everything easier for both buyers and sellers.

Perhaps most importantly, we believe we are at the very early stages of our journey and our opportunity. The early trends we observed on how work was fundamentally evolving in 2010 has exploded into a global phenomenon. Freelancing isn't a fad, and it isn't limited to any sector or any geography.

The US has been our biggest market so far, but our sights are set globally. For example, in July we created a day-long community event on the iconic London Eye in

the UK. While we are an online company, we do a lot of events around the world to bring buyers and sellers together and to be a true thought leader on the future of work. As part of the event we commissioned a study with market research firm Censuswide which resulted in some compelling statistics about the current state of work in the UK. Here are a few of them. 67% of Brits are thinking about quitting their jobs to go freelance. The number of self-employed workers in the UK has increased from 3.3 million in 2001 to 4.9 million in 2019. And 43% of full-time workers have a side-job to help make extra income.

These statistics are remarkable, but they are reflected in the everyday reality of our business and our platform. We have created a marketplace specifically designed to enable and monetize these trends on a global basis. Buyers come to Fiverr for a specific need such as a logo or a voiceover project, and we drive repeat orders as their business needs expand based on our massive catalog of services. We have seen remarkably consistent behavior from buyer cohorts over the past 8 years, giving us strong visibility and predictability in our financials. We are moving upmarket very effectively, as evidenced by strong increases in spend per buyer.

While we do have many individuals within enterprises using Fiverr to get things done, we are focused on the massive global SMB market. By choosing to focus on SMBs, we can address a rapidly growing market opportunity. In the US alone, there are more than 30 million SMBs, and they represent 99% of total businesses. We estimate our TAM in US alone is more than \$100 billion per year. Just as importantly, we can tackle this massive market opportunity without an expensive sales team. Instead, we benefit from the fact that most of our traffic is organic, and we are highly efficient online marketers.

This is evidenced by our Time to Return On Investment metric, or tROI, that Ofer will describe in a few minutes.

Turning to our Q2 results and progress; we had a very strong quarter with revenue growing 41% on a year over year basis, driven by strong growth in Active Buyers which were up 14%. We consistently grow active buyers by between 200,000 and 300,000 each year, and we are focused on driving the quality of our buyers and their lifetime value, which has improved significantly over the years.

Spend per Buyer was up 16%, driving continued scale benefits that helped us improve our Adjusted EBITDA margin by 1,130 basis points over last year.

While we do not manage the business for take rate, it grew to 26.4%. We believe that this take rate is not only sustainable, but that we can grow it over time based on the tremendous value our marketplace brings to both buyers and sellers, and the multiple levers we have to drive take rate if we choose to do so.

One other financial metric that I am excited about is the revenue contribution from high value buyers, which we define as buyers with more than \$500 Spend per Buyer each year. Contribution from these buyers continued its steady march upward, and those buyers represent more than 50% of transactions on Fiverr. We believe this is a clear indicator that our path going upmarket is working, and that buyers are placing a high value on the services available in the marketplace.

Our strong results for Q2 demonstrate the tremendous momentum in our business, and I truly believe that we have only begun to scratch the surface of what we can

accomplish. We have five key strategies that will drive long-term sustainable growth: 1) bring new buyers to our platform; 2) continue to go upmarket; 3) expand our Gig catalog; 4) innovate technology and services; and, 5) expand our geographic footprint.

During Q2, we continued to execute against those strategies, and I'd like to highlight a few here.

In early July we launched our gaming industry store. This is part of our catalog expansion strategy. We currently have more than 250 categories. Adding new categories helps propel our business, and drives expansion of the lifetime value of our buyers since they come back more often and buy across different categories. It also increases our total addressable market.

We chose to invest in a verticalized experience for the gaming sector after analyzing demand and observing both rapid organic growth in gaming-related purchases from buyers -- and gig registrations by sellers. By packaging gigs into a store, we are able to provide a better experience for both buyers and sellers in this high growth, high value sector. Buyers can now purchase services in 30 categories related to the gaming industry including animation, storyboards, video and character development, and many more. It provides convenient access to high quality gaming talent and gives our freelancers additional opportunities to utilize their skills.

Additionally, we introduced a brand-new product called Fiverr Studios just a few days ago. We see this as an excellent example of how we innovate a transformative product, offering sellers a new way to collaborate. Fiverr freelancers can now join forces under one 'Studio' to create projects combining their different skills and experiences.

I'll give you one example. Michael from Colorado is one of the first sellers who became a Studio Lead upon our invitation. He is an ex Hollywood actor who offers spokesperson video gigs on Fiverr. He created his Studio named Wolfe Studios along with two other Fiverr sellers: Kevin, a content writer, and Adnan, a graphic and web designer. Together, they offer a complete package to create professional TV commercial videos for buyers.

For sellers, Fiverr Studios enable them to tackle larger and higher value projects with cross-category skills involved. For buyers it is all about getting end-to-end solutions without any additional complexity. With Fiverr Studios, businesses get the same seamless experience -- a single point of contact, a single brief, and a single price for an entire agency-like team -- the same e-commerce experience that they have come to expect from Fiverr.

For freelancers, joining a Fiverr Studio or becoming a Fiverr Studio Lead, means more opportunity to work with businesses of all sizes on more intricate projects. Freelancers can now collaborate as part of these online studios without the hassle of billing, invoicing or managing payments; they can simply focus on the work they love doing ... together.

We also made significant progress in non-English speaking markets. Approximately 70% of our revenue last year was from English-speaking countries, and we see multiple and meaningful opportunities beyond these markets. To that end we launched a German-language homepage, [fiverr.de](https://www.fiverr.de), supported by a number of digital and out-of-home marketing campaigns that were adapted to the German market. These early

localization initiatives have already enabled us to acquire German-speaking buyers more efficiently. Once we have a proven playbook from Germany, we aim to replicate these principles in other markets.

Moreover, we added additional payment capabilities so buyers can now pay in 11 other currencies in addition to US dollars. We added the Euro as a default payment option for buyers in 18 European countries, which builds awareness and the adoption rate of our currency product among users. In the coming quarters, we will continue expanding our currency capabilities to allow sellers to withdraw funds in different currencies.

Expanding our platform in multiple languages and accepting multiple currencies, combined with customizing our marketplace to meet local needs and preferences, will drive awareness and adoption of our platform as we target buyers and sellers around the world.

These are the types of initiatives that you should expect from us moving forward. We back our decisions with a combination of a data-driven approach and our significant experience, but we are not afraid of making bets and experimenting with new ideas that we believe will drive the freelancing business forward globally.

As we look ahead to the rest of 2019, we see a very busy and exciting year. The consistent behavior of our existing buyers and cohorts represents a tremendous base from which we can build. We will continue to roll out important technology for both buyers and sellers that will further increase the power, engagement and stickiness of our marketplace. We've grown extremely rapidly without the need for a salesforce and with low global awareness of Fiverr.

We strongly believe that we are only at the beginning stages of what Fiverr is going to be able to achieve as a company. We are extremely excited to have completed our IPO and begun our journey as a public company. I want to take a moment and thank the Fiverr team for all of your hard work and dedication, and to our new public investors for your support.

Fiverr is a “change-the-world” company and we invite you to stay tuned to our progress. I’ll now turn the call to Ofer before we take your questions. Ofer?

Ofer Katz

Chief Financial Officer – Fiverr International, Ltd.

Thank you, Micha. Full details of our results are available in our shareholder letter, so I will not repeat many of the numbers contained there. On today’s call, I’d like to share 3 highlights from this quarter. First, our revenue growth momentum continued in Q2 with strong underlying trends across our business. Second, we continue to drive operating leverage and delivered significant EBITDA margin improvement during the quarter. And third, our guidance for Q3 and full year 2019 demonstrates our commitment to achieving strong growth while driving towards profitability in the long term.

Revenue grew to 25.9 million dollars in the second quarter, up 41 percent y/y, and we continue to see robust growth in all three underlying revenue drivers. Active buyers grew 14 percent y/y to 2.2 million, spend per buyer grew 16 percent y/y to 157 dollars, and our take rate grew 170 basis points y/y to 26.4 percent. The modest increase in take rate benefited from the inclusion of ClearVoice whose subscription-based service

enjoys a higher take rate; the monetization of seller tools such as And.Co and Fiverr Learn; as well as continued benefit from currency capabilities and service fee increase.

We continue to see stable trends across our annual buyer cohorts, and a consistent tROI for our performance marketing spend. We continue to drive the majority of our new buyers through organic, non-paid channels. And we continue to drive the majority of our revenue from repeat buyers, and from high-value buyers whose Spend Per Buyer is greater than 500 dollars per year.

Our second quarter adjusted EBITDA was negative 4.9 million dollars and our EBITDA margin was negative 19 percent, representing 1,130 basis point improvement year over year. We continue to deliver strong gross margin of 81.4 percent on a non-GAAP basis, a moderate improvement year over year.

We gained significant sales and marketing leverage during the quarter with 560 basis point improvement year over year, on a non-GAAP basis. We've seen modest improvement in conversion rates as a result of ongoing funnel optimization efforts across our platform. We are also improving marketing efficiency by diversifying channels and increasing automation. Our Q2 Time to Return on Investment, or tROI, remained consistent with prior quarters, and during the quarter, we already recovered 90 percent of our performance marketing investments. I'm extremely proud that we are able to achieve this level of efficiency while driving both more buyers and higher quality buyers to our platform.

We also gained 480 basis point improvement for non-GAAP R&D expense as a percentage of revenue. The improving leverage is driven by top-line growth as well as

disciplined spend control. Our R&D investments are focused in several areas: 1) continued product iteration to drive better user experience and improve conversion; 2) product innovations such as Fiverr Studios; 3) investments in mobile; and 4) front-end and back-end development to support category and international expansion. We believe building technology assets and a robust product portfolio is a key driver for increasing scale and enhancing our platform for growth, and we expect to continue to invest in these areas.

Now, to guidance. For Q3, we expect revenue between 25.5 million and 26.5 million dollars, representing year over year growth of 30-35 percent. We expect Q3 adjusted EBITDA between negative 6 million and negative 5 million dollars, representing negative 21.2 percent adjusted EBITDA margin at the midpoint. We expect continued leverage from sales and marketing and R&D expenses, while G&A as a percentage of revenue is expected to modestly increase due to increased costs as a public company.

For full year 2019, we expect revenue between 101.5 million and 103.5 million dollars, representing annual revenue growth of 34-37 percent. We expect adjusted EBITDA of negative 21.5 million to negative 20.5 million dollars, representing negative 20.5 percent adjusted EBITDA margin at the midpoint.

We are very happy with our performance in Q2 and excited about the rest of 2019 and beyond.

With that, we will open the call to questions. Operator?