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Fiverr International, Ltd. (NYSE: FVRR)

Prepared Remarks

Q1 2023 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 that ended March 31, 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, Jinjin. Good morning everyone and thank you for joining us today.

We are pleased with our strong execution for the first quarter of 2023. Revenue was \$88.0 million, up 1.5% and close to the top end of our guidance, and Adjusted EBITDA was \$11.3 million, above the top end of our guidance, representing an Adjusted EBITDA margin of 12.8%. These robust results underscore the resilience of our business under current macro conditions, and the consistent cohort behavior of our large buyer base continues to provide us with visibility and defensibility. We have also demonstrated the operating leverage inherent in the attractive marketplace model that allows us to quickly drive Adjusted EBITDA improvement as soon as we pivoted to focus on efficiency.

All of this gives us confidence to deliver on our 2023 expectations set at the beginning of the year. As managers of a public company, we are committed to exercising prudence and discipline, especially as we navigate through the current macro volatility, and we strive to execute our strategies and deliver business results in a consistent manner.

Today I would like to dive into two topics that I believe will drive significant long-term growth for Fiverr - AI and Fiverr Business.

First, let's talk about AI. We haven't seen AI negatively impact our business, on the contrary, the categories we opened to address AI-related services are booming. The number of AI-related gigs has increased over tenfold, and buyer searches for AI have soared over 1,000% compared to six months ago, indicating a strong demand and validating our efforts to stay ahead of the curve in this rapidly evolving technological landscape. We are witnessing the increasing need for human skills to deploy and implement AI technologies, which we believe will enable greater productivity and improved quality of work when human talent is augmented by AI capabilities.

In the long run, we don't anticipate AI development to displace the need for human talent. We believe AI won't replace our sellers; rather, sellers using AI will outcompete

those who don't. As a marketplace, we consistently surface the most competitive sellers who provide the best services to our buyers, which includes utilizing the best tools and technologies available. Enabling our buyers and sellers to embrace the newest technology is a feature of our dynamic marketplace and an essential aspect of our model. Furthermore, while AI generated content can be well-constructed, it is all based on existing human-created content. To generate novel and authentic content, human input remains vital. Additionally, verifying and editing the AI generated content, which often contains inaccuracies, requires human expertise and effort. That's why we have seen categories such as fact-checking or AI content editing flourish on our marketplace in recent months.

So we are confident that humans will always be a part of the loop. We believe AI technology is designed to help humans be more productive and more creative, and it will give rise to many new professions - much like how the introduction of computers or big data created the profession of software engineers or data scientists.

At Fiverr, we view generative AI as a key wave of innovation for our platform and we are accelerating our work in this area to ensure that we are at the forefront of capturing the opportunities ahead. This includes being the first to launch dedicated AI service categories and we are convinced that Fiverr will continue to be the go-to place for talent in the latest AI technologies. We are also exploring opportunities to empower our freelancer community with the latest AI tools to help them increase productivity and earnings. We have created products like Logo Maker and AI Audition in the past, and with generative AI, we see immense untapped potential in this area. Last but not least, as a product-led company, we believe we will benefit significantly from AI technologies to improve our product experience. Our e-commerce marketplace is unique with end-to-end user data from pre-order matching to post-order work. With our scale, data and technology know-how, no one is better positioned than Fiverr in the freelancing space to lean into AI technology to disrupt the e-commerce experience.

Fiverr Business and our move upmarket continue to be a key priority and is essential for our long-term growth. We are making significant strides in our go-to-market strategy this year. Within our existing buyer base, we are identifying ideal customer profiles and

exploring different avenues across product, marketing and customer success in order to expand the usage of those higher value accounts and land more accounts of similar profiles. Externally, we are broadening our top-of-funnel outreach in order to penetrate new communities of business customers through partnership relationships. We see lots of potential in this approach and believe it'll be a key acquisition funnel for us that complements the performance marketing and brand investments that we traditionally use. We are also investing into the long-term by continuously rounding out our Business product suite. As part of that effort, we recently announced the integration of Stoke Talent into Fiverr Enterprise, which we believe will benefit our medium and large enterprise customers as we consolidate our services under one brand and create a more unified end-to-end solution for businesses across hiring, freelancer management, payment and compliance. The unified brand makes it easier to market to our customers and to drive usage on both marketplace and freelance management offerings.

In conclusion, I'm genuinely excited about the year ahead. We are strengthening the long-term moats and defensibility of our business from multiple aspects. Financially, we aim to significantly improve Adjusted EBITDA margin to optimize our growth and profitability profile; strategically, we are bringing focus and execution to our core business and investing in long-term priorities; and in terms of market positioning, we believe AI brings a step function to our addressable market and we expect it will open new opportunities to transform the e-commerce experience on our platform. We are fortunate to be in such a position of strength and our entire team remains passionate, committed, and focused in turning these aspects into reality.

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.

We started the year strong as our focus around efficiency for our business paid off. Revenue of \$88.0 million came in near the top end of our guidance and Adjusted EBITDA of \$11.3 million, or 12.8% in margin, beat the top end of our guidance. We are pleased with our progress and expect to continue to steadily improve our operating leverage across all expense lines for the rest of the year.

Active buyers in Q1 were 4.3 million, as we continue to see a stable Active Buyers trend driven by disciplined and efficient top-of-funnel investments as well as consistent and stabilizing cohort behavior among our repeat buyers. Overall sales and marketing expense as a percentage of revenue in Q1 was 43.5%, an improvement of 560 basis points from Q1 last year. tROI for performance marketing was 0.9x this quarter, the same level as Q4'22, despite the fact that we typically invest a bit more in marketing in Q1 compared to Q4. We continue to take a data-driven approach in our performance marketing investments and we believe these improvements will not only put us in a stronger financial position while navigating an uncertain environment, but also provide us with the flexibility and capacity to execute our long-term strategic priorities.

Spend per buyer for Q1 was \$262, up 4% year-over-year as we continue to progress in our upmarket efforts. We have also been encouraged by the spending patterns in our large wallet share buyers. Among those buyers who spent over \$10K+ in 2022, we saw the vast majority of them remained very active in the first quarter of 2023. We expect spend per buyer to gradually improve in the second half of the year as we invest further into higher value buyers and as Fiverr Business continues to grow faster than the overall marketplace.

Q1 take rate improved to 30.4%, representing a year-over-year expansion of 80 basis points, as we continue to expand our value-added services for both buyers and sellers on our platform. Programs such as Promoted Gigs and Seller Plus continue to perform in-line with our expectations from the beginning of the year.

Now turning to guidance. For the second quarter of 2023, revenue is expected to be \$88.0 - \$90.0 million, representing year-over-year growth of 4%-6%. Adjusted EBITDA is expected to be \$12.0 to \$14.0 million, representing an Adjusted EBITDA margin of 14.6% at the midpoint. For the full year of 2023, we expect revenue to be in the range of \$355 - \$365 million, representing year-over-year growth of 5%-8%. Adjusted EBITDA is expected to be in the range of \$48.0 - \$56.0 million, representing an Adjusted EBITDA margin of 14.4% at the midpoint.

The stabilizing trends that we have seen in our marketplace along with our cost disciplined approach gives us the confidence to narrow our full year guidance range by raising the lower end while maintaining the top end. We do not see any changes to our current underlying macroeconomic assumptions and as such we will remain prudent in our approach. As mentioned last quarter, we expect year-over-year revenue growth rates to increase over the course of 2023 and we expect to achieve additional Adjusted EBITDA margin gains as we progress towards our long-term target of 25%.

To summarize, we are confident in our strong financial position and are on track to deliver on our guidance for this year even in this uncertain environment. We will continue to make prudent and forward thinking investments to help grow our business and capture the opportunities on our platform.

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