

Shutterstock

4Q miss & FY24 outlook below Street; Cautious on LT targets, Reiterate UP

Reiterate Rating: UNDERPERFORM | PO: 40.00 USD | Price: 43.91 USD

4Q Rev/EBITDA below Street, cont'd weakness in eComm

4Q Rev/EBITDA of \$217mn/\$46mn was below Street estimates at \$225mn/\$48mn. Enterprise revenues increased 21% y/y (up 12% ex-data vs up 4% in 3Q) while eCommerce revenues declined 16% y/y due to continued weakness in new customer acquisition. Trajectory for data/service revenues remains unpredictable & declined 13% q/q in 4Q (after increasing 163% q/q in 3Q) to \$40mn. SSTK saw cont'd weakness in eComm KPIs as the number of paid downloads at 35.4mn (down 17% y/y) & number of subscribers at 523K (down 11% y/y) were below Street at 36.6mn & 548K respectively.

'24 outlook of flat revenue & EBITDA growth disappoints

For 2024, SSTK guided revenue of \$875mn (flat y/y) vs Street at \$919mn, EBITDA of \$241mn (vs Street at \$250mn) & Adj. net income per share of \$4.15-\$4.30mn (vs Street at \$4.41). The company expects cont'd pressure on the core content business and potential improvement through the year. Shutterstock also provided LT targets with revenue goal of \$1.2bn by 2027 (content revenue CAGR of 7% and DDS revenue CAGR of 22%), EBITDA of \$350mn (28-30% margin) and cumulative FCF of \$800mn.

Slightly lowering our below Street estimates; PO at \$40

We are lowering our below Street estimates reflecting slightly lower growth in both enterprise and eCommerce segment (lower data revenue, number of downloads offset by slightly higher revenue per download). For 1Q'24, we estimate revenue of \$206mn and EBITDA of \$61mn. For 2024, we lower revenues by 5% to \$874mn and estimate EBITDA of \$232mn. For 2025 estimates, key for valuation, we lower revenue by 4% to \$926mn and EBITDA by 2% to \$237mn. We maintain our \$40 PO still based on 6x 2025E EV/EBITDA multiple.

Cautious on LT targets & revenue trajectory for AI deals

SSTK's long-term targets implies a revenue CAGR of 10% (vs 6% in the past two years). In our view, before investors incorporate these targets in estimates and valuation, the company will have to demonstrate that it can stabilize eCommerce segment (down 12% y/y in 2023), generate more consistent organic growth in the core enterprise segment and shift data training and services segment away from large, front-loaded contracts that are driving unpredictability (current WIP). With outlook suggesting cont'd near-term weakness in core content business, we reiterate our Underperform rating.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.62	3.07	1.99	2.45	2.89
EPS Change (YoY)	6.9%	17.2%	-35.2%	23.1%	18.0%
Consensus EPS (Bloomberg)			4.41	5.01	5.61
DPS	0.96	1.08	1.17	1.27	1.38
Valuation (Dec)					
P/E	16.8x	14.3x	22.1x	17.9x	15.2x
Dividend Yield	2.2%	2.5%	2.7%	2.9%	3.1%
EV / EBITDA*	7.1x	6.4x	6.5x	6.5x	6.0x
Free Cash Flow Yield*	7.3%	6.1%	10.6%	12.4%	13.3%

* For full definitions of *IQmethod*SM measures, see page 6.

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21 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	924.5	874.3
2025E Rev (m)	967.7	926.0
2026E Rev (m)	NA	989.1
2024E EPS	2.30	1.99
2025E EPS	2.42	2.45
2026E EPS	NA	2.89
2024E DPS	1.16	1.17

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Stock Data

Price	43.91 USD
Price Objective	40.00 USD
Date Established	31-Oct-2023
Investment Opinion	C-3-7
52-Week Range	33.80 USD - 78.19 USD
Mkt Val (mn) / Shares Out (mn)	1,577 USD / 35.9
Free Float	68.2%
Average Daily Value (mn)	20.96 USD
BofA Ticker / Exchange	SSTK / NYS
Bloomberg / Reuters	SSTK US / SSTK.N
ROE (2024E)	12.8%
Net Dbt to Eqty (Dec-2023A)	-13.4%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

LLM: Large language models
Gen-AI: Generative AI

TAM: Total Addressable Market
AI: Artificial Intelligence
ML: Machine Learning

iQprofileSM Shutterstock

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	18.2%	10.6%	11.0%	12.7%	13.9%
Return on Equity	20.7%	22.6%	12.8%	14.7%	16.0%
Operating Margin	17.9%	13.3%	14.3%	15.3%	16.0%
Free Cash Flow	115	96	168	196	210

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	1.3x	3.1x	3.0x	2.8x
Asset Replacement Ratio	0.6x	0.6x	0.5x	0.5x	0.5x
Tax Rate	13.6%	10.0%	10.0%	10.0%	10.0%
Net Debt-to-Equity Ratio	-14.6%	-13.4%	-15.8%	-22.6%	-30.2%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	828	875	874	926	989
% Change	7.0%	5.6%	0%	5.9%	6.8%
Gross Profit	514	523	524	560	598
% Change	3.6%	1.7%	0.2%	6.8%	6.8%
EBITDA	218	240	239	237	259
% Change	13.0%	10.3%	-0.7%	-0.9%	9.4%
Net Interest & Other Income	(3)	54	0	0	0
Net Income (Adjusted)	95	110	69	82	93
% Change	3.2%	16.3%	-37.6%	18.8%	14.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	95	110	69	82	93
Depreciation & Amortization	68	80	82	87	93
Change in Working Capital	(38)	(23)	(4)	23	19
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	33	(26)	64	51	54
Capital Expenditure	(43)	(45)	(44)	(46)	(49)
Free Cash Flow	115	96	168	196	210
% Change	-38.8%	-16.7%	74.8%	16.8%	7.3%
Share / Issue Repurchase	(17)	(28)	(100)	(100)	(100)
Cost of Dividends Paid	(35)	(39)	(41)	(43)	(45)
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	115	100	116	158	211
Trade Receivables	67	91	69	73	78
Other Current Assets	33	101	111	118	126
Property, Plant & Equipment	55	64	64	64	64
Other Non-Current Assets	611	679	679	679	679
Total Assets	881	1,036	1,040	1,092	1,158
Short-Term Debt	50	30	30	30	30
Other Current Liabilities	334	422	407	440	472
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	50	57	57	57	57
Total Liabilities	434	509	493	527	559
Total Equity	447	527	547	565	600
Total Equity & Liabilities	881	1,036	1,040	1,092	1,158

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Internet/e-Commerce

Company Description

Shutterstock operates a global online marketplace for digital commercial imagery, which includes licensed images, footage and music. Users include marketing agencies, media and broadcast companies, and small and medium-sized businesses. Shutterstock's platform brings together users and contributors of content by providing readily-searchable content that customers pay to license and by compensating contributors as their content is licensed.

Investment Rationale

Shutterstock operates in a relatively mature and highly competitive industry with low barriers to entry. We believe growth in company's consumer eCommerce segment is likely to remain under pressure in the near-term. Moreover, with the rise of Gen-AI technology, uncertainty over the trajectory of AI data training revenues and risk of disintermediation from improving capabilities of new Gen-AI competitors are likely weigh on company's growth prospects, investor sentiment and stock.

Stock Data

Average Daily Volume 477,232

Quarterly Earnings Estimates

	2023	2024
Q1	0.90A	0.54E
Q2	1.37A	0.54E
Q3	0.79A	0.55E
Q4	-0.03A	0.33E

4Q'23 Actuals vs. Estimates

Exhibit 1: 3Q'23 Actual vs Estimates

4Q Revenue/EBITDA at \$217mn/\$46mn was below our estimates at \$231mn/\$50mn.

4Q'23 Actual vs BofA Estimates			
	BofA Ests.	Actual	Actual - BofAE
Revenues			
Enterprise	126	115	(11)
Y/Y	32%	21%	-11%
E-Commerce	105	102	(2)
Y/Y	(15%)	(16%)	(2%)
Total Revenue	\$231	\$217	(\$13)
Y/Y	6%	0%	-6%
Cost of revenue	92	96	3
As a % of revenue	40%	44%	4%
			0
Gross Profit	138	122	(17)
Gross Margin	60%	56%	-4%
			0.0%
Marketing and Sales	65	60	(4)
Product Development	25	20	(5)
General and Administrative	30	27	(3)
SBC	14	12	(2)
Non-GAAP Opex	120	107	(12)
Non-GAAP Operating Income	18	14	(4)
Margin	8%	6%	-2%
GAAP EPS	\$0.39	(\$0.03)	(\$0.42)
			0%
Adjusted EBITDA	\$50	\$46	(\$4)
Margin	22%	21%	-1%
FCF	47	23	(25)
Capital Expenditures	(12)	(10)	2
Number of paid downloads (mn)	36.1	35.4	-0.7
Revenue per download	\$4.80	\$5.02	\$0.22
Subscriber Revenue	\$92.2	\$85.2	(\$7.0)

Source: BofA Global Research estimates, Company Filings

BofA GLOBAL RESEARCH

Estimate Changes

We are lowering our below Street estimates reflecting slightly lower growth in both enterprise and eCommerce segment (lower data revenue, number of downloads offset by slightly higher revenue per download). For 1Q'24, we estimate revenue of \$206mn and EBITDA of \$61mn. For 2024, we lower revenues by 5% to \$874mn and estimate EBITDA of \$232mn. For 2025 estimates, key for valuation, we lower revenue by 4% to \$926mn and EBITDA by 2% to \$237mn. We maintain our \$40 PO still based on 6x 2025E EV/EBITDA multiple.

Exhibit 2: Estimate Changes

We are lowering 2025 EBITDA estimates, key for valuation, by 2% to \$237mn.

	1Q'24 Estimates			2024 Estimates			2025 Estimates		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenues									
Enterprise	123	107	(16)	499	470	(29)	534	512	(22)
Y/Y	29%	13%	-17%	12%	8%	-4%	7%	9%	2%
E-Commerce	104	98	(5)	425	404	(21)	434	414	(20)
Y/Y	(14%)	(18%)	-4%	(4%)	(8%)	-4%	2%	2%	0%
Total Revenue	\$227	\$206	(\$21)	\$924	\$874	(\$50)	\$968	\$926	(\$42)
Y/Y	5%	-4%	-10%	4%	0%	-4%	5%	6%	1%
Cost of revenue	91	76	(15)	370	350	(20)	377	366	(11)
As a % of revenue	40%	37%	-3%	40%	40%	0.1%	39%	40%	0.6%
Gross Profit	136	130	(6)	555	524	(31)	590	560	(31)
Gross Margin	60%	63%	3%	60%	60%	-0.1%	61%	60%	-0.6%
Marketing and Sales	54	49	(5)	225	213	(12)	233	215	(18)
Product Development	25	20	(5)	85	79	(6)	83	84	1
General and Administrative	30	27	(3)	120	107	(13)	125	118	(7)
SBC	14	12	(2)	58	48	(9)	60	51	(10)
Non-GAAP Opex	109	96	(13)	430	399	(31)	441	418	(23)
Non-GAAP Operating Income	27	33	7	124	125	1	149	142	(7)
Margin	12%	16%	5%	13%	14%	1%	15%	15%	0%
GAAP EPS (Diluted)	\$0.59	\$0.54	(\$0.05)	\$2.30	\$1.99	(\$0.31)	\$2.42	\$2.45	\$0.03
Adjusted EBITDA	\$58	\$61	\$3	\$232	\$239	7	\$241	\$237	(4)
Margin	26%	30%	4%	25%	27%	2.2%	25%	26%	0.6%
FCF	42	22	(20)	197	156	(42)	198	184	(14)
Capital Expenditures	(11)	(10)	1	(46)	(44)	3	(48)	(46)	2
Number of paid downloads (mn)	37	36	0	150	148	(1)	154	151	(3)
Revenue per download	\$4.72	\$4.72	\$0.00	\$4.75	\$4.96	\$0.21	\$4.89	\$5.06	\$0.17
Subscriber Revenue	\$93	\$85	(\$9)	\$367	\$345	(\$22)	\$376	\$357	(\$18)

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Shutterstock (SSTK)

Our \$40 PO is based on a 6x 2025E EV/EBITDA multiple. Our valuation reflects a discount to peers, given Shutterstock's 1) lower growth and margin profile, 2) smaller (and low growth) addressable market, 3) uncertainty over the trajectory of AI data training revenues, 4) risk of disintermediation from image Gen-AI competitors, and 5) Negative growth and outlook for the eCommerce segment.

Upside risks to our PO are: 1) inexpensive valuation reflecting major headwinds, 2) significant turnaround in eCommerce segment and growth outlook, 3) topline acceleration aided by new and larger data deal, and 4) optimism on new digital ad business from Giphy acquisition.

Downside risks to our PO are: 1) uncertainty over the trajectory of AI data training revenues, 2) risk of disintermediation from image Gen-AI competitors, and 3) negative growth and outlook for the eCommerce segment.

Analyst Certification

I, Curtis Nagle, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	DoubleVerify Holdings, Inc.	DV	DV US	Omar Dessouky, CFA
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Integral Ad Science Holding Corp.	IAS	IAS US	Omar Dessouky, CFA
	LegalZoom	LZ	LZ US	Michael McGovern
	Match Group	MTCH	MTCH US	Curtis Nagle, CFA
	Meta Platforms Inc	META	META US	Justin Post
	Pinterest	PINS	PINS US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Squarespace, Inc.	SQSP	SQSP US	Michael McGovern
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Curtis Nagle, CFA
	Vivid Seats	SEAT	SEAT US	Curtis Nagle, CFA
	Wayfair	W	W US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Michael McGovern
NEUTRAL				
	ACV Auctions	ACVA	ACVA US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	Beyond Inc	BYON	BYON US	Curtis Nagle, CFA
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Bumble	BMBL	BMBL US	Curtis Nagle, CFA
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	Duolingo	DUOL	DUOL US	Curtis Nagle, CFA
	eBay	EBAY	EBAY US	Justin Post
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA
	Expedia	EXPE	EXPE US	Justin Post
	Instacart	CART	CART US	Justin Post



US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Magnite, Inc.	MGNI	MGNI US	Omar Dessouky, CFA
	Snap	SNAP	SNAP US	Justin Post
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA
UNDERPERFORM				
	Chewy Inc	CHWY	CHWY US	Curtis Nagle, CFA
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Peloton	PTON	PTON US	Curtis Nagle, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	Shutterstock	SSTK	SSTK US	Curtis Nagle, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

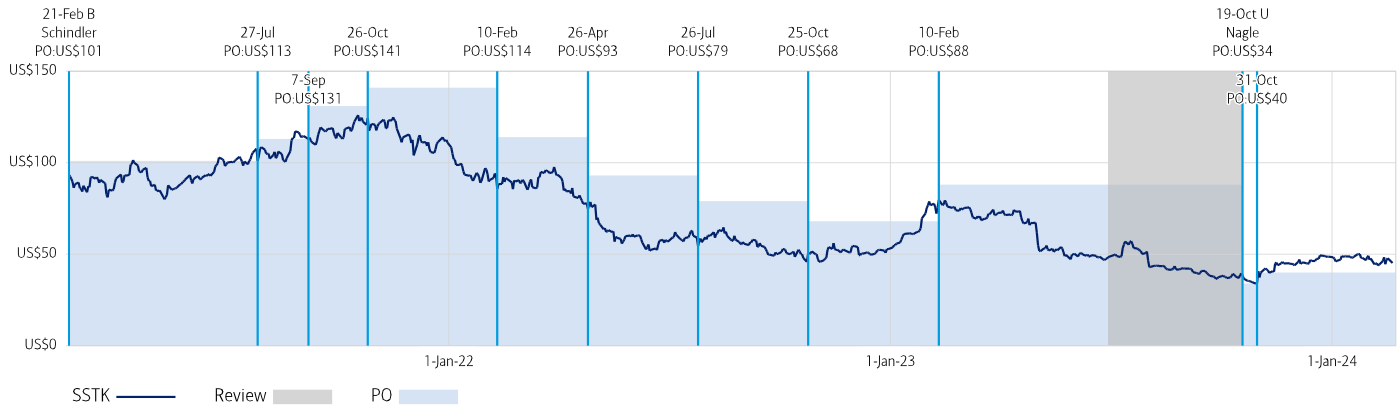
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Disclosures

Important Disclosures

Shutterstock (SSTK) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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