

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2023

OR

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission File Number 001-36911

Etsy

ETSY, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

20-4898921

(I.R.S. Employer Identification No.)

117 Adams Street

(Address of principal executive offices)

Brooklyn, NY

11201

(Zip code)

(718) 880-3660

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	ETSY	The Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer



Non-accelerated Filer



Accelerated Filer



Smaller Reporting Company



Emerging Growth Company



If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of common stock outstanding as of April 28, 2023 was 123,351,909.



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Unless the context otherwise requires, we use the terms “Etsy,” the “Company,” “we,” “us,” and “our” in this Quarterly Report on Form 10-Q (“Quarterly Report”) to refer to Etsy, Inc. and, where appropriate, our consolidated subsidiaries.

See Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Operating and Financial Metrics” for the definitions of the following terms used in this Quarterly Report: “active buyer,” “active seller,” “Adjusted EBITDA,” “currency-neutral GMS growth,” “GMS,” “GMS ex-U.S. domestic,” and “mobile GMS.”

Etsy has used, and intends to continue using, its investor relations website and the Etsy News Blog (blog.etsy.com/news) to disclose material non-public information and to comply with its disclosure obligations under Regulation FD. Accordingly, you should monitor our investor relations website and the Etsy News Blog in addition to following our press releases, SEC filings, and public conference calls and webcasts.

Note Regarding Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements include statements relating to our opportunity; the impact of our “Right to Win” and other growth strategies, including our strategies for integrating our “House of Brands” marketplaces, marketing and product initiatives, and investments and other levers of growth on our business and operating results, including future gross merchandise sales (“GMS”) and revenue growth; the strength of our capital structure and our ability to meet our cash operating requirements; our ability to attract, engage, and retain buyers and sellers; strategic investments or acquisitions and the potential benefits thereof; our impact goals, strategy, and intended progress; global macroeconomic uncertainty and volatility; and uncertainty regarding and changes in overall levels of consumer spending and e-commerce generally. Forward-looking statements include all statements that are not historical facts. In some cases, forward-looking statements can be identified by terms such as “aim,” “anticipate,” “believe,” “could,” “enable,” “estimate,” “expect,” “goal,” “intend,” “may,” “plan,” “potential,” “project,” “seek,” “should,” “target,” “will,” “would,” or similar expressions and derivative forms and/or negatives of those terms.

Forward-looking statements are not guarantees of performance and involve known and unknown risks and uncertainties. Other factors may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. Those risks include those described in Part II, Item 1A, “Risk Factors” and elsewhere in this Quarterly Report. Given these uncertainties, you should read this Quarterly Report in its entirety and not place undue reliance on any forward-looking statements in this Quarterly Report.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Quarterly Report and, although we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely upon these statements.

Moreover, we operate in a competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements made in this Quarterly Report. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this Quarterly Report may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. In addition, there continues to be significant global macroeconomic and geopolitical uncertainty, which may amplify many of these risks.

Forward-looking statements represent our beliefs and assumptions only as of the date of this Quarterly Report. We disclaim any obligation to update forward-looking statements.

Summary Risk Factors

Our business is subject to numerous risks. The following summary highlights some of the risks we are exposed to in the normal course of our business activities. This summary is not complete and the risks summarized below are not the only risks we face. You should review and consider carefully the risks and uncertainties described in more detail in Part II, Item 1A, “Risk Factors,” which includes a more complete discussion of the risks summarized below as well as a discussion of other risks related to our business and an investment in our common stock.

Financial Performance and Operational Risks Related to Our Business

- We experienced rapid growth in our business during 2020 and 2021 and there may not be sustained demand for our services or the products sold in our marketplaces. We also may not have the infrastructure or operational resources or otherwise be able to support our recent growth.
- The trustworthiness of our marketplaces and the connections within our communities are important to our success. Our business, financial performance, and growth depend on our ability to attract and retain active and engaged communities of buyers and sellers. If we are unable to retain our existing buyers and sellers and activate new ones, our financial performance could decline.
- The unprecedented COVID-19 pandemic has impacted, and may continue to impact, our GMS and results of operations in numerous volatile and unpredictable ways.
- Our quarterly operating results may fluctuate, which could cause significant stock price fluctuations.
- We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which could cause our stock price to decline.

- Our business could suffer if we experience a technology disruption that results in a loss of information, if personal data or sensitive information about users or employees is misused or disclosed, or if we or our third-party providers are unable to protect against technology vulnerabilities, service interruptions, cyber incidents, ransomware, security incidents, or other security breaches.
- Our business depends on continued and unimpeded access to third-party services, platforms, and infrastructure that we rely upon to maintain and scale our platform. If the widely adopted mobile, social, search, and/or advertising solutions that we, our sellers, and our buyers rely on as part of our key offering are no longer available or effective, or if access to these major platforms is limited, the use of our marketplaces could decline.
- Our payments systems have both operational and compliance risks, including in-house execution risk, dependency on third-party providers, and a complex landscape of evolving laws, regulations, rules, and standards.
- Our business could be adversely affected by economic downturns, inflation, natural disasters, public health crises, political crises, geopolitical events, disruptions to the banking industry, or other macroeconomic conditions, which have in the past and may in the future negatively impact our business and financial performance.
- Our ability to recruit and retain a diverse group of employees and retain key employees is important to our success. If we experience significant attrition or turnover it could impact our ability to grow our business.

Strategic Risks Related to Our Business and Industry

- We face intense competition and may not be able to compete effectively.
- If we are not able to keep pace with technological changes, and enhance current and develop new offerings to respond to the changing needs of sellers and buyers, our business, financial performance, and growth may be harmed.
- If we do not demonstrate progress against our environmental, social, and governance Impact strategy (our “Impact strategy”) or if this strategy is not perceived to be adequate, our reputation could be harmed. Our reputation and the value of our brands may also be damaged if we fail to demonstrate that our commitment to our Impact strategy enhances our overall financial performance.
- Continuing to expand our operations outside of the United States is part of our strategy, and the growth of our business could be harmed if our international expansion efforts do not succeed.
- Our acquisitions of Depop Limited (“Depop”) and Elo7 Serviços de Informática S.A. (“Elo7”) may create strains on our management, technology and operational resources and may prove to be costlier and take longer to integrate than we anticipate, which may ultimately reduce or eliminate the benefits to Etsy of the acquisitions.
- We have incurred impairment charges for our goodwill and may incur further impairment charges for our goodwill and other intangible assets, which would negatively impact our operating results.
- We may expand our business through additional acquisitions of other businesses or assets or strategic partnerships and investments, which may divert management’s attention and/or prove to be unsuccessful.
- We have a significant amount of convertible debt and may incur additional debt in the future.

Regulatory, Compliance, and Legal Risks

- Compliance and protection under evolving global legal and regulatory requirements including privacy and data protection laws, tax laws, product liability laws, laws regulating speech and platform monitoring or moderation, antitrust laws, intellectual property and counterfeiting regulations, may materially impact our time, resources, and ability to grow our business.
- Expanding our operations in Latin America and India may expose us to additional risks.
- We are regularly involved in, litigation, arbitration, and regulatory matters that are expensive and time consuming and that may require changes to our strategy, the features of our marketplaces and/or how our business operates.
- We may be subject to intellectual property or other claims, which, even if untrue, could damage our brands, require us to pay significant damages, and could limit our ability to use certain technologies or business strategies in the future.

Other Risks

- Future sales and issuances of our common stock, or rights to purchase common stock, including upon conversion of our convertible notes, could result in additional dilution to our stockholders and could cause the price of our common stock to decline.

Part I – Financial Information

Item 1. Condensed Consolidated Financial Statements (Unaudited).

Etsy, Inc.

Consolidated Balance Sheets (Unaudited)

(In thousands, except share and per share amounts)

	As of March 31, 2023	As of December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 786,796	\$ 921,278
Short-term investments	252,666	250,413
Accounts receivable, net of expected credit losses of \$9,933 and \$8,303 as of March 31, 2023 and December 31, 2022, respectively	26,274	27,888
Prepaid and other current assets	76,856	80,203
Funds receivable and seller accounts	202,354	233,961
Total current assets	1,344,946	1,513,743
Restricted cash	5,341	5,341
Property and equipment, net of accumulated depreciation and amortization of \$216,747 and \$204,189 as of March 31, 2023 and December 31, 2022, respectively	248,352	249,744
Goodwill	138,061	137,724
Intangible assets, net of accumulated amortization of \$103,793 and \$92,179 as of March 31, 2023 and December 31, 2022, respectively	534,466	535,406
Deferred tax assets	128,679	121,506
Long-term investments	57,028	29,137
Other assets	43,668	42,360
Total assets	\$ 2,500,541	\$ 2,634,961
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 19,901	\$ 28,757
Accrued expenses	240,025	331,234
Finance lease obligations—current	4,713	4,731
Funds payable and amounts due to sellers	202,354	233,961
Deferred revenue	14,506	14,008
Other current liabilities	17,614	19,064
Total current liabilities	499,113	631,755
Finance lease obligations—net of current portion	104,144	105,699
Deferred tax liabilities	44,379	44,735
Long-term debt, net	2,280,663	2,279,640
Other liabilities	112,430	120,406
Total liabilities	3,040,729	3,182,235
Commitments and contingencies (Note 8)		
Stockholders' deficit:		
Common stock (\$0.001 par value, 1,400,000,000 shares authorized as of March 31, 2023 and December 31, 2022; 122,953,145 and 125,054,278 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively)	123	125
Preferred stock (\$0.001 par value, 25,000,000 shares authorized as of March 31, 2023 and December 31, 2022)	—	—
Additional paid-in capital	913,672	815,085
Accumulated deficit	(1,156,134)	(1,048,267)
Accumulated other comprehensive loss	(297,849)	(314,217)
Total stockholders' deficit	(540,188)	(547,274)
Total liabilities and stockholders' deficit	\$ 2,500,541	\$ 2,634,961

The accompanying notes are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statements of Operations (Unaudited)

(In thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2023	2022
Revenue	\$ 640,877	\$ 579,266
Cost of revenue	195,453	172,995
Gross profit	445,424	406,271
Operating expenses:		
Marketing	171,314	154,280
Product development	115,924	89,476
General and administrative	79,987	78,200
Total operating expenses	367,225	321,956
Income from operations	78,199	84,315
Other income, net	3,072	1,672
Income before income taxes	81,271	85,987
(Provision) benefit for income taxes	(6,734)	122
Net income	<u>\$ 74,537</u>	<u>\$ 86,109</u>
Net income per share attributable to common stockholders:		
Basic	<u>\$ 0.60</u>	<u>\$ 0.68</u>
Diluted	<u>\$ 0.53</u>	<u>\$ 0.60</u>
Weighted-average common shares outstanding:		
Basic	<u>124,336,969</u>	<u>127,149,293</u>
Diluted	<u>142,965,820</u>	<u>146,677,879</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2023	2022
Net income	\$ 74,537	\$ 86,109
Other comprehensive income (loss):		
Cumulative translation adjustment	15,627	(14,703)
Unrealized gains (losses) on investments, net of tax expense (benefit) \$233, \$(418), respectively	741	(1,314)
Total other comprehensive income (loss)	16,368	(16,017)
Comprehensive income	<u>\$ 90,905</u>	<u>\$ 70,092</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

Consolidated Statements of Changes in Stockholders' (Deficit) Equity (Unaudited)

(In thousands, except share amounts)

Three Months Ended March 31, 2023

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance as of December 31, 2022	125,054,278	\$ 125	\$ 815,085	\$ (1,048,267)	\$ (314,217)	\$ (547,274)
Stock-based compensation (1)	12,353	—	70,987	—	—	70,987
Exercise of vested options	185,200	—	3,005	—	—	3,005
Settlement of capped call	(1,194,006)	(1)	34,224	(34,223)	—	—
Settlement of convertible senior notes, net of taxes	232	—	(1)	—	—	(1)
Vesting of restricted stock units, net of shares withheld	100,239	—	(9,628)	—	—	(9,628)
Stock repurchase	(1,205,151)	(1)	—	(148,181)	—	(148,182)
Other comprehensive income	—	—	—	—	16,368	16,368
Net income	—	—	—	74,537	—	74,537
Balance as of March 31, 2023	122,953,145	\$ 123	\$ 913,672	\$ (1,156,134)	\$ (297,849)	\$ (540,188)

Three Months Ended March 31, 2022

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balance as of December 31, 2021	127,022,118	\$ 127	\$ 631,762	\$ 71,744	\$ (75,014)	\$ 628,619
Stock-based compensation (1)	28,010	—	51,014	—	—	51,014
Exercise of vested options	250,345	—	3,394	—	—	3,394
Settlement of convertible senior notes, net of taxes	58	—	—	—	—	—
Vesting of restricted stock units, net of shares withheld	89,285	—	(13,684)	—	—	(13,684)
Stock repurchase	(420,398)	—	—	(62,568)	—	(62,568)
Other comprehensive loss	—	—	—	—	(16,017)	(16,017)
Net income	—	—	—	86,109	—	86,109
Balance as of March 31, 2022	126,969,418	\$ 127	\$ 672,486	\$ 95,285	\$ (91,031)	\$ 676,867

(1) Includes the partial payments of Depop deferred consideration. See Note 10—Stock-Based Compensation for additional information.

The accompanying notes are an integral part of these condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2023	2022
Cash flows from operating activities		
Net income	\$ 74,537	\$ 86,109
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation expense	68,683	49,271
Depreciation and amortization expense	23,172	24,754
Provision for expected credit losses	4,969	3,109
Foreign exchange loss (gain)	3,611	(5,567)
Deferred benefit for income taxes	(8,968)	(10,517)
Other non-cash (income) expense, net	(99)	3,321
Changes in operating assets and liabilities:		
Current assets	34,726	32,195
Non-current assets	1,050	1,711
Current liabilities	(137,660)	(126,048)
Non-current liabilities	(8,390)	1,206
Net cash provided by operating activities	55,631	59,544
Cash flows from investing activities		
Purchases of property and equipment	(2,249)	(3,212)
Development of internal-use software	(5,957)	(6,005)
Purchases of investments	(116,896)	(76,416)
Sales and maturities of investments	89,005	75,478
Net cash used in investing activities	(36,097)	(10,155)
Cash flows from financing activities		
Payment of tax obligations on vested equity awards	(9,194)	(12,288)
Repurchase of stock	(148,182)	(62,568)
Proceeds from exercise of stock options	3,005	3,394
Payment of debt issuance costs	(2,045)	(25)
Settlement of convertible senior notes	(45)	(5)
Payments on finance lease obligations	(1,575)	(1,598)
Other financing, net	(512)	807
Net cash used in financing activities	(158,548)	(72,283)
Effect of exchange rate changes on cash	4,532	(1,065)
Net decrease in cash, cash equivalents, and restricted cash	(134,482)	(23,959)
Cash, cash equivalents, and restricted cash at beginning of period	926,619	785,537
Cash, cash equivalents, and restricted cash at end of period	\$ 792,137	\$ 761,578

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2023	2022
Supplemental non-cash disclosures:		
Deferred consideration (1)	\$ 1,506	\$ 3,822
Stock-based compensation capitalized in development of capitalized software and asset additions in exchange for liabilities	\$ 3,592	\$ 3,961

(1) See "Note 10—Stock-Based Compensation" for additional information on the settlement of deferred consideration related to the Depop acquisition.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the Consolidated Balance Sheets that sum to the total of the same such amounts shown above:

	Three Months Ended March 31,	
	2023	2022
Beginning balance:		
Cash and cash equivalents	\$ 921,278	\$ 780,196
Restricted cash	5,341	5,341
Total cash, cash equivalents, and restricted cash	\$ 926,619	\$ 785,537
Ending balance:		
Cash and cash equivalents	\$ 786,796	\$ 756,237
Restricted cash	5,341	5,341
Total cash, cash equivalents, and restricted cash	\$ 792,137	\$ 761,578

The accompanying notes are an integral part of these condensed consolidated financial statements.

Notes to Condensed Consolidated Financial Statements

Note 1—Basis of Presentation and Summary of Significant Accounting Policies

Description of Business

Etsy operates two-sided online marketplaces that connect millions of passionate and creative buyers and sellers around the world. These marketplaces - which collectively create a “House of Brands” - share the Company’s mission, common levers for growth, similar business models, and a strong commitment to use business and technology to strengthen communities and empower people. The Company’s primary marketplace, Etsy.com, is the global destination for unique and creative goods made by independent sellers. The Company generates revenue primarily from marketplace activities, including transaction, listing, and payments processing fees, and fees for optional seller services, which include on-site advertising and shipping labels.

Basis of Consolidation

The condensed consolidated financial statements include the accounts of Etsy and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the applicable rules and regulations of the Securities and Exchange Commission (“SEC”). The Company has condensed or omitted certain information and notes normally included in complete annual financial statements prepared in accordance with GAAP. These unaudited interim condensed consolidated financial statements should therefore be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K filed with the SEC on February 23, 2023 (the “Annual Report”). In the opinion of management, all material adjustments, which are of a normal and recurring nature, necessary for a fair statement of the results for the periods presented have been reflected in the condensed consolidated financial statements. The results of operations of any interim period are not necessarily indicative of the results of operations for the full annual period or any future period due to seasonal and other factors.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires the Company to make estimates and judgments that affect the amounts reported and disclosed in the condensed consolidated financial statements and accompanying notes. Actual results could differ from these estimates and judgments. The accounting estimates that require management’s most subjective judgments include: stock-based compensation; income taxes, including the estimate of the annual effective tax rate at interim periods and evaluation of uncertain tax positions; the valuation of acquired intangible assets, developed technology, and goodwill as part of purchase price allocations for business combinations; valuation of goodwill; and leases. As of March 31, 2023, there continues to be significant global macroeconomic and geopolitical uncertainty which may impact the Company’s business, results of operations, and financial condition. As a result, many of the Company’s estimates and judgments require increased judgment and carry a higher degree of variability and volatility. As additional information becomes available, the Company’s estimates may change materially in future periods.

Notes to Consolidated Financial Statements

Note 2—Revenue

The following table summarizes revenue disaggregated by Marketplace revenue and optional Services revenue for the periods presented (in thousands):

	Three Months Ended March 31,	
	2023	2022
Marketplace revenue	\$ 467,516	\$ 427,691
Services revenue	173,361	151,575
Revenue	<u>\$ 640,877</u>	<u>\$ 579,266</u>

Contract balances**Deferred revenues**

The amount of revenue recognized in the three months ended March 31, 2023 that was included in the deferred balance at January 1, 2023 was \$13.4 million.

Note 3—Income Taxes

The Company's provision or benefit from income taxes in interim periods is determined using an estimate of the annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter the Company updates its estimate of the annual effective tax rate, and if its estimated tax rate changes, the Company makes a cumulative adjustment. The estimate of the annual effective income tax rate for the full year is applied to the respective interim period, taking into account year-to-date amounts and projected results for the full year.

The Company's quarterly tax provision, and its quarterly estimate of the annual effective tax rate, is subject to significant variation due to several factors, including variability in accurately predicting its income or loss before tax and the mix of jurisdictions to which they relate, taxable income or loss in each jurisdiction, changes in its stock price, audit-related developments, acquisitions, changes in its deferred tax assets and liabilities and their valuation, foreign currency gains (losses), changes in statutes, regulations, case law, and administrative practices, principles, and interpretations related to tax, including changes to the global tax framework, competition, and other laws and accounting rules in various jurisdictions, and relative changes of expenses or losses for which tax benefits are not recognized. Additionally, the effective tax rate can be more or less volatile based on the amount of income or loss before tax. For example, the impact of discrete items and non-deductible expenses on the effective tax rate is greater when income before income taxes is lower.

For the three months ended March 31, 2023, the Company's effective income tax rate was 8.3% representing an income tax provision recorded on net income before tax. The effective tax rate for the three months ended March 31, 2023 was lower than the U.S. statutory rate of 21% primarily due to the impact from foreign operations, a benefit related to a research and development tax credit, and excess tax benefits from employee stock-based compensation, partially offset by state income taxes.

Although management believes its tax positions and related provisions reflected in the condensed consolidated financial statements are fully supportable, it recognizes that these tax positions and related provisions may be challenged by various tax authorities. These tax positions and related provisions are reviewed on an ongoing basis and are adjusted as additional facts and information become available, including progress on tax audits, changes in interpretation of tax laws, developments in case law and closing of statute of limitations. To the extent that the ultimate results differ from the original or adjusted estimates of the Company, the effect will be recorded in the provision for income taxes.

The provision for income taxes involves a significant amount of management judgment regarding interpretation of relevant facts and laws in the jurisdictions in which the Company operates. Future changes in applicable laws, projected levels of taxable income and tax planning could change the effective tax rate and tax balances recorded by the Company. In addition, tax authorities periodically review income tax returns filed by the Company and can raise issues regarding its filing positions, timing and amount of income and deductions, and the allocation of income among the jurisdictions in which the Company operates. A significant period of time may elapse between the filing of an income tax return and the ultimate resolution of an issue raised by a revenue authority with respect to that return. Any adjustments as a result of any examination may result in additional taxes or penalties against the Company. If the ultimate result of these audits differ from original or adjusted estimates, they could have a material impact on the Company's tax provision.

Notes to Consolidated Financial Statements

The amount of unrecognized tax benefits included in the Consolidated Balance Sheets increased \$1.1 million in the three months ended March 31, 2023, from \$35.2 million as of December 31, 2022 to \$36.3 million as of March 31, 2023. The total amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate is \$35.2 million as of March 31, 2023. Although the timing of the resolution and/or closure of audits is highly uncertain, it is reasonably possible that the balance of gross unrecognized tax benefits could significantly change in the next 12 months. The Company's reasonable estimate of its gross unrecognized tax benefits, excluding interest and penalties, that could potentially be reduced during the next 12 months is \$2.1 million.

The Company recognizes interest and/or penalties related to uncertain tax positions in income tax expense.

Note 4—Net Income Per Share

The following table presents the calculation of basic and diluted net income per share for the periods presented (in thousands, except share and per share amounts):

	Three Months Ended March 31,	
	2023	2022
Numerator:		
Net income	\$ 74,537	\$ 86,109
Add back interest expense, net of tax attributable to assumed conversion of convertible senior notes	1,595	1,592
Net income attributable to common stockholders—diluted	<u>\$ 76,132</u>	<u>\$ 87,701</u>
Denominator:		
Weighted-average common shares outstanding—basic	124,336,969	127,149,293
Dilutive effect of assumed conversion of options to purchase common stock	2,602,709	3,303,488
Dilutive effect of assumed conversion of restricted stock units	1,310,947	1,509,044
Dilutive effect of assumed conversion of convertible senior notes (1)	14,715,195	14,716,054
Weighted-average common shares outstanding—diluted	<u>142,965,820</u>	<u>146,677,879</u>
Net income per share attributable to common stockholders—basic	<u>\$ 0.60</u>	<u>\$ 0.68</u>
Net income per share attributable to common stockholders—diluted	<u>\$ 0.53</u>	<u>\$ 0.60</u>

- (1) The \$1.0 billion aggregate principal amount of 0.25% Convertible Senior Notes due 2028 (the "2021 Notes"), \$650.0 million aggregate principal amount of 0.125% Convertible Senior Notes due 2027 (the "2020 Notes"), the \$649.9 million aggregate principal amount of 0.125% Convertible Senior Notes due 2026 (the "2019 Notes" and together with the 2021 Notes and 2020 Notes, the "Notes"), and the 0% Convertible Senior Notes due 2023 (the "2018 Notes") were dilutive for the three months ended March 31, 2023 and March 31, 2022. During the first quarter of 2023, upon maturity of the 2018 Notes, the Company paid in cash the remaining outstanding principal to the holders of the 2018 Notes. See "Note 7—Debt" for additional information.

The following potential common shares were excluded from the calculation of diluted net income per share attributable to common stockholders because their effect would have been anti-dilutive for the periods presented:

	Three Months Ended March 31,	
	2023	2022
Stock options	192,568	198,081
Restricted stock units	1,490,998	1,853,488
Total anti-dilutive securities	<u>1,683,566</u>	<u>2,051,569</u>

Notes to Consolidated Financial Statements

Note 5—Fair Value Measurements

The Company has characterized its investments based on the priority of the inputs used to value the investments, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and lowest priority to unobservable inputs (Level 3). If the inputs used to measure the investments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment. Investments recorded in the accompanying Consolidated Balance Sheets are categorized based on the inputs to valuation techniques as follows:

Level 1 These are investments where values are based on unadjusted quoted prices for identical assets in an active market that the Company has the ability to access.

Level 2 These are investments where values are based on quoted market prices in markets that are not active or model derived valuations in which all significant inputs are observable in active markets.

Level 3 These are financial instruments where values are derived from techniques in which one or more significant inputs are unobservable. The Company did not have any Level 3 instruments as of December 31, 2022.

Short- and long-term investments and certain cash equivalents consist of investments in debt securities that are available-for-sale.

In the year ended December 31, 2022, the Company authorized the creation of an Impact Investment Fund through which the Company expects to deploy approximately \$30 million to further the Company's Impact strategy and goals. In the three months ended March 31, 2023, the Company invested a portion of the Impact Investment Fund in two investments which are classified as long-term investments on our Consolidated Balance Sheet. The investment in a loan receivable is measured on an amortized cost basis and the investment in shares of a limited liability company is measured on the net assets value ("NAV") basis. The Company uses NAV or its equivalent to measure the value of certain investments in alternative investment funds, debt funds, equity funds, and private equity funds, which may be redeemable in the near term or restricted from redemption in the near term, as a practical expedient.

Notes to Consolidated Financial Statements

The following table sets forth the cost, gross unrealized losses, gross unrealized gains, and fair value of the Company's investments as of the dates indicated (in thousands):

	Cost	Gross Unrealized Loss	Gross Unrealized Gain	Fair Value	Cash and Cash Equivalents	Short-term Investments	Long-term Investments
March 31, 2023							
Level 1							
Money market funds	185,828	—	—	185,828	185,752	76	—
U.S. Government securities	84,104	(237)	156	84,023	—	51,148	32,875
	<u>269,932</u>	<u>(237)</u>	<u>156</u>	<u>269,851</u>	<u>185,752</u>	<u>51,224</u>	<u>32,875</u>
Level 2							
U.S. agency securities	24,841	(1)	25	24,865	—	22,823	2,042
Certificate of deposit	37,492	(90)	3	37,405	3,595	33,810	—
Commercial paper	68,447	(70)	13	68,390	—	68,390	—
Corporate bonds	93,754	(1,276)	52	92,530	—	76,419	16,111
	<u>224,534</u>	<u>(1,437)</u>	<u>93</u>	<u>223,190</u>	<u>3,595</u>	<u>201,442</u>	<u>18,153</u>
Level 3							
Loans receivable - held for investment	3,000	—	—	3,000	—	—	3,000
	<u>3,000</u>	<u>—</u>	<u>—</u>	<u>3,000</u>	<u>—</u>	<u>—</u>	<u>3,000</u>
NAV							
Shares in limited liability company	3,000	—	—	3,000	—	—	3,000
	<u>3,000</u>	<u>—</u>	<u>—</u>	<u>3,000</u>	<u>—</u>	<u>—</u>	<u>3,000</u>
	<u>\$ 500,466</u>	<u>\$ (1,674)</u>	<u>\$ 249</u>	<u>\$ 499,041</u>	<u>\$ 189,347</u>	<u>\$ 252,666</u>	<u>\$ 57,028</u>
December 31, 2022							
Level 1							
Money market funds (1)	462,866	—	—	462,866	374,314	76	—
U.S. Government securities	64,968	(424)	4	64,548	2,995	61,553	—
	<u>527,834</u>	<u>(424)</u>	<u>4</u>	<u>527,414</u>	<u>377,309</u>	<u>61,629</u>	<u>—</u>
Level 2							
U.S. agency securities	10,053	(1)	3	10,055	—	10,055	—
Certificate of deposit	40,915	(184)	7	40,738	5,471	35,267	—
Commercial paper	57,777	(101)	18	57,694	4,454	53,240	—
Corporate bonds	122,294	(1,729)	6	120,571	1,212	90,222	29,137
	<u>231,039</u>	<u>(2,015)</u>	<u>34</u>	<u>229,058</u>	<u>11,137</u>	<u>188,784</u>	<u>29,137</u>
	<u>\$ 758,873</u>	<u>\$ (2,439)</u>	<u>\$ 38</u>	<u>\$ 756,472</u>	<u>\$ 388,446</u>	<u>\$ 250,413</u>	<u>\$ 29,137</u>

(1) \$88.5 million of money market funds were classified as funds receivable and seller accounts as of December 31, 2022.

Notes to Consolidated Financial Statements

The table below shows the gross unrealized loss and fair value of the following investments in available-for-sale debt securities that are classified by the length of time that the securities have been in a continuous unrealized loss position as of the dates indicated (in thousands):

	Gross Unrealized Holding Loss	Fair Value
March 31, 2023		
Less than 12 months in a continuous unrealized loss position		
Corporate bonds	\$ (284)	\$ 42,122
U.S. Government securities	(99)	34,070
	<u>\$ (383)</u>	<u>\$ 76,192</u>
12 months or longer in a continuous unrealized loss position		
Corporate bonds	\$ (992)	\$ 38,344
U.S. Government securities	(138)	7,936
	<u>\$ (1,130)</u>	<u>\$ 46,280</u>
December 31, 2022		
Less than 12 months in a continuous unrealized loss position		
Corporate bonds	\$ (281)	\$ 70,469
U.S. Government securities	(265)	51,075
	<u>\$ (546)</u>	<u>\$ 121,544</u>
12 months or longer in a continuous unrealized loss position		
Corporate bonds	\$ (1,448)	\$ 50,102
U.S. Government securities	(159)	7,442
	<u>\$ (1,607)</u>	<u>\$ 57,544</u>

The remaining available-for-sale debt securities in an unrealized loss position have been in a continuous unrealized loss position for less than 12 months.

The Company evaluates fair value for each individual security in the investment portfolio. When assessing the risk of credit loss of its available-for-sale debt securities, the Company considers factors such as the extent to which the fair value is less than the amortized cost basis, the credit rating, including whether there has been any changes to the rating of the security by a rating agency, available information relevant to the collectability of the security, and management's intended holding period and time horizon for selling the security.

Outside of the Company's Impact Investment Fund, the Company typically invests in short- and long-term instruments, including fixed-income funds and U.S. Government securities aligned with the Company's investment strategy. In accordance with the Company's investment policy, all investments, other than investments made through its Impact Investment Fund, have maturities no longer than 37 months, with the average maturity of these investments maintained at 12 months or less.

Notes to Consolidated Financial Statements

Disclosure of Fair Values

The Company's financial instruments that are not remeasured at fair value in the Consolidated Balance Sheets include the Notes. See "Note 7—Debt" for additional information. The Company estimates the fair value of the Notes through inputs that are observable in the market, classified as Level 2 as described above. The following table presents the carrying value and estimated fair value of the Notes as of the dates indicated (in thousands):

	As of March 31, 2023		As of December 31, 2022	
	Carrying Value	Fair Value	Carrying Value	Fair Value
2021 Notes	\$ 990,104	\$ 830,400	\$ 989,629	\$ 863,300
2020 Notes	644,730	586,235	644,431	646,230
2019 Notes	645,829	934,082	645,536	998,361
2018 Notes	—	—	44	145
	<u>\$ 2,280,663</u>	<u>\$ 2,350,717</u>	<u>\$ 2,279,640</u>	<u>\$ 2,508,036</u>

The carrying value of other financial instruments', including accounts receivable, funds receivable and seller accounts, accounts payable, and funds payable and amounts due to sellers approximate fair value due to the immediate or short-term maturity associated with these instruments.

Notes to Consolidated Financial Statements

Note 6—Accrued Expenses

Accrued expenses consisted of the following as of the dates indicated (in thousands):

	As of March 31, 2023	As of December 31, 2022
Pass-through marketplace tax collection obligation	\$ 94,813	\$ 129,591
Vendor accruals	90,893	127,791
Employee compensation-related liabilities	36,981	63,718
Taxes payable	17,338	10,134
Total accrued expenses	<u>\$ 240,025</u>	<u>\$ 331,234</u>

Note 7—Debt

The following table presents the outstanding principal amount and carrying value of the Notes as of the dates indicated (in thousands):

As of March 31, 2023					
	2021 Notes	2020 Notes	2019 Notes	2018 Notes	Total
Principal	\$ 1,000,000	\$ 650,000	\$ 649,932	\$ —	\$ 2,299,932
Unamortized debt issuance costs	9,896	5,270	4,103	—	19,269
Net carrying value	<u>\$ 990,104</u>	<u>\$ 644,730</u>	<u>\$ 645,829</u>	<u>\$ —</u>	<u>\$ 2,280,663</u>

As of December 31, 2022					
	2021 Notes	2020 Notes	2019 Notes	2018 Notes	Total
Principal	\$ 1,000,000	\$ 650,000	\$ 649,932	\$ 44	\$ 2,299,976
Unamortized debt issuance costs	10,371	5,569	4,396	—	20,336
Net carrying value	<u>\$ 989,629</u>	<u>\$ 644,431</u>	<u>\$ 645,536</u>	<u>\$ 44</u>	<u>\$ 2,279,640</u>

Terms of the Notes

The Notes will mature at their maturity date unless earlier converted or repurchased. The terms of the Notes are summarized below:

Convertible Notes	Maturity Date	Contractual Convertibility Date (1)	Initial Conversion Rate per \$1,000 Principal	Initial Conversion Price	Annual Effective Interest Rate
2021 Notes	June 15, 2028	February 15, 2028	4.0518	\$ 246.80	0.4 %
2020 Notes	September 1, 2027	May 1, 2027	5.0007	199.97	0.3 %
2019 Notes	October 1, 2026	June 1, 2026	11.4040	87.69	0.3 %
2018 Notes	March 1, 2023	November 1, 2022	27.5691	36.27	— %

- (1) During any calendar quarter preceding the respective convertibility date of each series of Notes, in which the closing price of the Company's common stock exceeds 130% of the applicable conversion price of the Notes on at least 20 of the last 30 consecutive trading days of the quarter, holders may, in the immediate quarter following, convert all or a portion of their Notes. Based on the daily closing prices of the Company's stock during the quarter ended March 31, 2023, holders of the 2021 Notes, 2020 Notes, and 2019 Notes are not eligible to convert their 2021 Notes, 2020 Notes, and remaining 2019 Notes, respectively, during the second quarter of 2023.

During the first quarter of 2023, upon maturity of the 2018 Notes, the Company paid in cash the remaining outstanding principal of \$44 thousand to the holders of the 2018 Notes.

Based on the terms of each series of Notes, when a conversion notice is received, the Company has the option to pay or deliver cash, shares of the Company's common stock, or a combination thereof. Accordingly, the Company cannot be required to settle the Notes in cash and, therefore, the Notes are classified as long-term debt as of March 31, 2023.

Notes to Consolidated Financial Statements

The Company may redeem all or any portion of the 2021 Notes, at the Company's option, subject to partial redemption limitations, on or after June 20, 2025, if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the 2021 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

The Notes are general unsecured obligations of the Company. The Notes rank senior in right of payment to all of the Company's future indebtedness that is expressly subordinated in right of payment to the Notes; rank equal in right of payment with all of the Company's liabilities that are not so subordinated; are effectively junior to any of the Company's secured indebtedness; and are structurally junior to all indebtedness and liabilities (including trade payables) of the Company's subsidiaries.

Interest Expense

Interest expense, which consists of coupon interest and amortization of debt issuance costs, related to each of the Notes for the periods presented below was as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
2021 Notes	\$ 1,100	\$ 1,100
2020 Notes	501	501
2019 Notes	496	496
Total interest expense	<u>\$ 2,097</u>	<u>\$ 2,097</u>

Fair Value of Notes

The estimated fair value of each of the Notes was determined through inputs that are observable in the market, and are classified as Level 2. See "Note 5—Fair Value Measurements" for more information regarding the fair value of the Notes.

Capped Call Transactions

The Company used a portion of the net proceeds from each of the Note offerings to enter into separate privately negotiated capped call instruments (the 2018, 2019, 2020, and 2021 capped call instruments collectively referred to as the "Capped Call Transactions") with certain financial institutions, initial purchasers, and/or their respective affiliates. The Capped Call Transactions are expected generally to reduce the potential dilution and/or offset the cash payments the Company is required to make in excess of the principal amount of the Notes upon conversion of the Notes in the event that the market price per share of the Company's common stock is greater than the strike price of the Capped Call Transactions with such reduction and/or offset subject to a cap. Collectively, the Capped Call Transactions cover, initially, the number of shares of the Company's common stock underlying the respective Notes, subject to anti-dilution adjustments substantially similar to those applicable to the Notes.

The initial terms of the Company's outstanding Capped Call Transactions are presented below:

Capped Call Transactions	Maturity Date	Initial Cap Price per Share	Cap Price Premium
2021 Capped Call Transactions	June 15, 2028	\$ 340.42	100 %
2020 Capped Call Transactions	September 1, 2027	327.83	150 %
2019 Capped Call Transactions	October 1, 2026	148.63	150 %

The 2018 capped call transactions matured on March 1, 2023, and, in accordance with the settlement terms, the Company received 1,194,006 shares of the Company's common stock from the counterparties to the capped call instruments. These shares were retired upon receipt.

Notes to Consolidated Financial Statements

2023 Credit Agreement

On March 24, 2023, the Company entered into a \$400.0 million senior secured revolving credit facility pursuant to an Amended and Restated Credit Agreement (the “2023 Credit Agreement”) among the Company, as borrower, certain subsidiaries of the Company as guarantors, the lenders, and JPMorgan Chase Bank N.A., as administrative Agent. The 2023 Credit Agreement will mature in March 2028 and includes a letter of credit sublimit of \$60.0 million and a swingline loan sublimit of \$20.0 million.

The 2023 Credit Agreement amends and restates in its entirety the Credit Agreement dated as of February 25, 2019 between the Company, as borrower, the lenders party thereto from time to time, and Citibank N.A., as administrative Agent.

Borrowings under the 2023 Credit Agreement (other than swingline loans) bear interest, at the Company’s option, at (i) a base rate equal to the highest of (a) the prime rate, (b) the federal funds rate plus 0.50%, and (c) an adjusted Term SOFR rate for a one-month interest period plus 1.00%, in each case plus a margin ranging from 0.50% to 1.25% or (ii) an adjusted Term SOFR rate plus a margin ranging from 1.50% to 2.25%. Swingline loans under the 2023 Credit Agreement bear interest at the same base rate (plus the margin applicable to borrowings bearing interest at the base rate). These margins are determined based on the senior secured net leverage ratio (defined as secured funded debt, net of unrestricted cash up to \$100.0 million, to EBITDA (as defined in the 2023 Credit Agreement)) for the preceding four fiscal quarter periods. The Company is also obligated to pay other customary fees for a credit facility of this size and type, including an unused commitment fee, ranging from 0.20% to 0.35% depending on the Company’s senior secured net leverage ratio, and fees associated with letters of credit. The 2023 Credit Agreement also permits the Company, in certain circumstances, to request an increase in the facility by an amount of up to \$200.0 million at the same maturity, pricing and other terms and to request an extension of the maturity date for the facility. In connection with the 2023 Credit Agreement, the Company also paid the lenders certain upfront fees.

At March 31, 2023, the Company did not have any borrowings under the 2023 Credit Agreement and was in compliance with all financial covenants.

Note 8—Commitments and Contingencies

Purchase Obligations

The Company’s purchase obligations are primarily related to cloud computing. During the three months ended March 31, 2023, there were no material changes outside the ordinary course of business to the Company’s non-cancelable purchase obligations disclosed in the Company’s Annual Report.

Legal Proceedings

From time to time in the normal course of business, various other claims and litigation have been asserted or commenced against the Company. Due to uncertainties inherent in litigation and other claims, the Company can give no assurance that it will prevail in any such matters, which could subject the Company to significant liability for damages. Any claims or litigation could have an adverse effect on the Company’s results of operations, cash flows, or business and financial condition in the period the claims or litigation are resolved. Although the results of litigation and claims cannot be predicted with certainty, the Company currently believes that the final outcome of these ordinary course matters will not have a material adverse effect on its business.

Notes to Consolidated Financial Statements

Note 9—Stockholders' Deficit

Effective May 3, 2022, the Board of Directors approved a stock repurchase program that authorizes the Company to repurchase up to \$600 million of its common stock. The program does not have a time limit and may be modified, suspended, or terminated at any time by the Board of Directors. The number of shares repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, stock price, trading volume, and general market conditions, along with the Company's working capital requirements, general business conditions, and other factors.

Under the stock repurchase program, the Company may purchase shares of its common stock through various means, including open market transactions, privately negotiated transactions, tender offers, or any combination thereof. In addition, open market repurchases of common stock could be made pursuant to trading plans established pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, which would permit common stock to be repurchased at a time that the Company might otherwise be precluded from doing so under insider trading laws or self-imposed trading restrictions.

The 2018 capped call transactions matured on March 1, 2023, and in accordance with the settlement terms, the Company received 1,194,006 shares of the Company's common stock from the counterparties to the capped call instruments. These shares were retired upon receipt. See "Note 7—Debt." This receipt and subsequent retirement of shares was separate from the stock repurchase plan approved by the Board of Directors in May 2022.

The following table summarizes the Company's cumulative share repurchase activity under the program noted above, excluding shares withheld to satisfy tax withholding obligations in connection with the vesting of employee restricted stock units ("RSUs") and the 1,194,006 shares received from the 2018 capped call transactions noted above (in thousands, except share and per share amounts):

	Shares Repurchased	Average Price Paid per Share (1)	Value of Shares Repurchased (1)	Remaining Amount Authorized
Balance as of January 1, 2023				\$ 301,431
Repurchases of common stock for the three months ended:				
March 31, 2023	1,205,151	\$ 122.96	\$ 148,199	(148,199)
Balance as of March 31, 2023	<u>1,205,151</u>	<u>\$ 122.96</u>	<u>\$ 148,199</u>	<u>\$ 153,232</u>

(1) Average price paid per share excludes broker commissions. Value of shares repurchased includes broker commissions.

All repurchases were made using cash resources, and all repurchased shares of common stock have been retired.

Notes to Consolidated Financial Statements

Note 10—Stock-Based Compensation

During the three months ended March 31, 2023, the Company granted RSUs, including financial performance-based restricted stock units (“Financial PBRsUs”) and total shareholder return performance-based restricted stock units (“TSR PBRsUs”), under its 2015 Equity Incentive Plan (“2015 Plan”) and, pursuant to the evergreen increase provision of the 2015 Plan, 6,252,714 additional shares were added to the total number of shares available for issuance under the 2015 Plan effective as of January 2, 2023. At March 31, 2023, 56,644,564 shares were authorized under the 2015 Plan and 35,994,141 shares were available for future grant.

The following table summarizes the activity for the Company’s unvested RSUs, which includes Financial PBRsUs and TSR PBRsUs, during the three months ended March 31, 2023:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2022	6,393,786	\$ 128.37
Granted	2,693,002	108.55
Vested	(175,703)	141.91
Forfeited/Canceled	(167,216)	125.59
Unvested at March 31, 2023	8,743,869	122.05

The total unrecognized compensation expense at March 31, 2023 related to the Company’s unvested RSUs, including the Financial PBRsUs and TSR PBRsUs, was \$888.3 million, which will be recognized over an estimated weighted-average amortization period of 3.07 years.

Awards related to the acquisition of Depop on July 12, 2021, will be recognized as post-combination service stock-based compensation expense over a vesting period equal to the mandatory service period associated with the award, with a corresponding liability included within Other liabilities on the Company’s Consolidated Balance Sheets until the service-based vesting criteria are met and the awards are settled in shares of Etsy common stock. The unrecognized compensation expense at March 31, 2023 related to these awards was \$3.0 million, which will be recognized over an estimated weighted-average amortization period of 1.1 years. These amounts are excluded from the unrecognized compensation expense associated with the Company’s unvested RSUs noted above.

The total unrecognized compensation expense at March 31, 2023 related to the Company’s options was \$11.6 million, which will be recognized over an estimated weighted-average amortization period of 1.74 years.

Stock-based compensation expense included in the Condensed Consolidated Statements of Operations for the periods presented below is as follows (in thousands):

	Three Months Ended March 31,	
	2023	2022
Cost of revenue	\$ 7,246	\$ 4,191
Marketing	5,262	3,632
Product development	36,709	21,397
General and administrative	19,466	20,051
Stock-based compensation expense	\$ 68,683	\$ 49,271

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and related notes and other financial information included elsewhere in this Quarterly Report on Form 10-Q ("Quarterly Report") and with the audited consolidated financial statements included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 23, 2023 (the "Annual Report"). This discussion, particularly information with respect to our outlook, key trends and uncertainties, our plans and strategy for our business, and our performance and future success, includes forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report, particularly in Part II, Item 1A, "Risk Factors." We also believe that our performance and future success depend on a number of factors that present significant opportunities for us, as discussed in Part I, Item 1, "Business," in our Annual Report, which we incorporate by reference.

Overview

Business

Etsy operates two-sided online marketplaces that connect millions of passionate and creative buyers and sellers around the world. These marketplaces - which collectively create a "House of Brands" - share our mission, common levers for growth, similar business models, and a strong commitment to use business and technology to strengthen communities and empower people.

Our primary marketplace, Etsy.com, is the global destination for unique and creative goods made by independent sellers. The Etsy marketplace connects creative artisans and entrepreneurs with thoughtful consumers looking for items that are a joyful expression of their taste and values. Our sellers are the heart and soul of Etsy, and our technology platform allows our sellers to turn their creative passions into economic opportunity. We have a seller-aligned business model: we make money when our sellers make money. We offer Etsy.com sellers a marketplace with tens of millions of buyers along with a range of seller tools and services that are specifically designed to help our creative entrepreneurs generate more sales and scale their businesses.

Buyers come to the Etsy marketplace for meaningful, one-of-a-kind items handcrafted and curated with passion and expertise by our creative entrepreneurs. We are focused on attracting potential buyers to Etsy for everyday items that have meaning and those "special" purchase occasions that happen throughout the year. These include items that reflect an individual's unique style; gifting that demonstrates thought and care; and celebrations that express creativity and fun.



In addition to our core Etsy marketplace, our "House of Brands" consists of Reverb Holdings, Inc. ("Reverb"), our musical instrument marketplace, Depop Limited ("Depop"), our fashion resale marketplace, and Elo7 Serviços de Informática S.A. ("Elo7"), our Brazil-based marketplace for handmade and unique items. Each of our marketplaces primarily operate independently, although some of our key operational functions such as finance, legal, and human resources, for example, support all four marketplaces to some extent. Our goal is that all four marketplaces benefit from shared expertise in product, marketing, technology, and customer support, and that the sum of the whole, over time, will equal more than its individual parts.

We generate revenue primarily from marketplace activities, including transaction, listing, and payments processing fees, and optional services, which include on-site advertising and shipping labels.

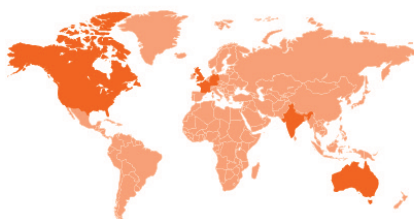
Our strategy is focused around:

- Building a sustainable competitive advantage - our “Right to Win;”
- Growing the Etsy marketplace in our seven core geographies; and
- Leveraging our marketplace expertise and playbook across our “House of Brands.”

Building a sustainable competitive advantage — our “Right to Win”



Focus on the core Etsy market, in our 7 core geographies



Leveraging our marketplace playbook across our “House of Brands”



Our investments in technology infrastructure, product development, marketing, trust and safety, member support, sellers’ tools and education, and other areas support our strategy, which you can read more about in our Annual Report.

First Quarter 2023 Key Metrics and Financial Highlights

As of March 31, 2023, our marketplaces connected 7.9 million active sellers and 95.5 million active buyers in nearly every country in the world. In the three months ended March 31, 2023, sellers generated GMS of \$3.1 billion, approximately 67% of which came from purchases made on mobile devices. We are a global company and approximately 45% of our GMS in the three months ended March 31, 2023 came from transactions in which either a seller or a buyer or both was located outside of the United States.

Total revenue was \$640.9 million in the three months ended March 31, 2023, driven by growth in both Marketplace and Services revenue. In the three months ended March 31, 2023, we recorded net income of \$74.5 million and non-GAAP Adjusted EBITDA of \$170.3 million. See “Non-GAAP Financial Measures” for a reconciliation of Adjusted EBITDA to net income, the most directly comparable financial measure calculated in accordance with GAAP.

Cash and cash equivalents and short-term investments were \$1.0 billion as of March 31, 2023. As of March 31, 2023, we had outstanding \$1.0 billion aggregate principal amount of 0.25% Convertible Senior Notes due 2028 (the “2021 Notes”), \$650.0 million aggregate principal amount of 0.125% Convertible Senior Notes due 2027 (the “2020 Notes”), and \$649.9 million aggregate principal amount of 0.125% Convertible Senior Notes due 2026 (the “2019 Notes” and together with the 2021 Notes, 2020 Notes, the “Notes”). Additionally, we have the ability to draw down on our \$400.0 million senior secured revolving credit facility. For further details, refer to 2023 Credit Agreement below. In the three months ended March 31, 2023, we had positive operating cash flows of \$55.6 million.

2018 Capped Call Transactions

The 2018 capped call transactions matured on March 1, 2023, and in accordance with the settlement terms, we received 1,194,006 shares of our common stock from the counterparties to the capped call instruments. These shares were retired upon receipt.

2023 Credit Agreement

On March 24, 2023, we entered into a \$400.0 million senior secured revolving credit facility pursuant to an Amended and Restated Credit Agreement (the “2023 Credit Agreement”) among us, as borrower, certain subsidiaries of Etsy party as guarantors, the lenders, and JPMorgan Chase Bank N.A., as administrative Agent. The 2023 Credit Agreement will mature in March 2028 and includes a letter of credit sublimit of \$60.0 million and a swingline loan sublimit of \$20.0 million.

The 2023 Credit Agreement amends and restates in its entirety the Credit Agreement dated as of February 25, 2019, between us, as borrower, the lenders party thereto from time to time, and Citibank N.A., as administrative Agent.

Key Operating and Financial Metrics

We collect and analyze operating and financial data to evaluate the health and performance of our business and allocate our resources (such as capital, people, and technology investments). We are providing Etsy marketplace standalone information in certain instances where particularly relevant. The unaudited GAAP and non-GAAP financial measures and key operating metrics we use are:

	Three Months Ended March 31,		% (Decline) Growth Y/Y	
	2023	2022		
(in thousands, except percentages)				
GMS (1)	\$ 3,101,358	\$ 3,252,387	(4.6)	%
Revenue	\$ 640,877	\$ 579,266	10.6	%
Marketplace revenue	\$ 467,516	\$ 427,691	9.3	%
Services revenue	\$ 173,361	\$ 151,575	14.4	%
Gross profit	\$ 445,424	\$ 406,271	9.6	%
Operating expenses	\$ 367,225	\$ 321,956	14.1	%
Net income	\$ 74,537	\$ 86,109	(13.4)	%
Net income margin	11.6 %	14.9 %	(330)	bps
Adjusted EBITDA (Non-GAAP)	\$ 170,344	\$ 159,198	7.0	%
Adjusted EBITDA margin (Non-GAAP)	26.6 %	27.5 %	(90)	bps
Active sellers (2)	7,942	7,654	3.8	%
Active buyers (2)	95,526	95,102	0.4	%
Percent mobile GMS (3)	67 %	66 %	100	bps
Percent GMS ex-U.S. Domestic (1)(3)	45 %	44 %	100	bps

- (1) Consolidated GMS for the three months ended March 31, 2023 includes Etsy marketplace GMS of \$2.7 billion. Percent GMS ex-U.S. domestic for the Etsy marketplace for the three months ended March 31, 2023 was 46%.
- (2) Consolidated active sellers and active buyers includes Etsy marketplace active sellers and active buyers of 5.9 million and 89.9 million, respectively, as of March 31, 2023.
- (3) See "Mobile GMS" and "GMS ex-U.S. domestic" definitions below.

GMS

Gross merchandise sales ("GMS") is the dollar value of items sold in our marketplaces, excluding shipping fees and net of refunds, within the applicable period. To provide consistency with our calculation of GMS, beginning in the first quarter of 2023, we are also reporting our mobile GMS, GMS ex-U.S. domestic, and Non-U.S. domestic GMS as a percentage of GMS net of refunds. We did not retroactively apply this change to prior periods as the impact was immaterial to such periods. GMS does not represent revenue earned by us. GMS is largely driven by transactions in our marketplaces and is not directly impacted by Services activity. However, because our revenue and cost of revenue depend significantly on the dollar value of items sold in our marketplace, we believe that GMS is an indicator of the success of our sellers, the satisfaction of our buyers, and the health, scale, and growth of our business. We track "Paid GMS" for the Etsy marketplace and define it as Etsy marketplace GMS that is attributable to our performance marketing efforts, which excludes most of our marketing investments focused on brand awareness like TV and digital video.

GMS decreased \$151.0 million to \$3.1 billion in the three months ended March 31, 2023 compared to the three months ended March 31, 2022. The decline in GMS between the three months ended March 31, 2023 and 2022 was primarily driven by a decrease in GMS for the Etsy marketplace. First quarter 2023 GMS was impacted by consumer wallet share shifts from goods to services, softness in some of our top categories such as home and living and craft supplies, and pressures on consumer discretionary spending. While GMS per active buyer on a trailing twelve month basis was down year-over-year given the strong prior year comparisons, the effect was partially offset by the Etsy marketplace ending the first quarter of 2023 with 89.9 million active buyers, up slightly year-over-year for the first time since the fourth quarter of 2021.

Additionally, on a consolidated basis we experienced the following (decline)/growth in new buyer and existing buyer GMS in the periods presented:

	Three Months Ended March 31,			
	2023		2022	
	% Decline Y/Y	% of GMS	% (Decline) Growth Y/Y	% of GMS
New Buyer GMS (1)	(7)%	12 %	(16)%	12 %
Existing Buyer GMS	(4)%	88 %	7 %	88 %

- (1) While new buyer GMS was down 7% year-over-year in the three months ended March 31, 2023, the number of Etsy marketplace new buyers we acquired in the three months ended March 31, 2023 remains meaningfully elevated when compared to pre-pandemic levels.

There continues to be significant global macroeconomic and geopolitical uncertainty, which may impact the performance of our business. See Part II, Item 1A, “Risk Factors” for further detail.

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA represents our net income adjusted to exclude: interest and other non-operating (income) expense, net; provision (benefit) for income taxes; depreciation and amortization; stock-based compensation expense; foreign exchange loss (gain); and acquisition-related expenses. Adjusted EBITDA margin is Adjusted EBITDA divided by revenue. See “Non-GAAP Financial Measures” for a reconciliation of Adjusted EBITDA to net income, the most directly comparable GAAP financial measure.

Active Sellers

An active seller is a seller who has had a charge or sale in the last 12 months. Charges include Marketplace and Services revenue fees, discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview—Business.” A seller is separately identified in each of our marketplaces by a unique e-mail address; a single person can have multiple seller accounts and can count as a distinct active seller in each of our marketplaces. We succeed when sellers succeed, so we view the number of active sellers as a key indicator of consumer awareness of our brands, the reach of our platforms, the potential for growth in GMS and revenue, and the health of our business.

Active Buyers

An active buyer is a buyer who has made at least one purchase in the last 12 months. A buyer is separately identified in each of our marketplaces by a unique e-mail address; a single person can have multiple buyer accounts and can count as a distinct active buyer in each of our marketplaces. We generate revenue when buyers order items from sellers, so we view the number of active buyers as a key indicator of our potential for growth in GMS and revenue, the reach of our platforms, consumer awareness of our brands, the engagement and loyalty of buyers, and the health of our business.

Mobile GMS

Mobile GMS is GMS that results from an order completed on a mobile device, such as a tablet or a smartphone. Mobile GMS excludes orders initiated on mobile devices but ultimately completed on a desktop. As noted above in our discussion of “GMS,” beginning in the first quarter of 2023, mobile GMS is now calculated net of refunds. We believe that mobile GMS indicates our success in converting mobile activity into mobile purchases and demonstrates our ability to grow GMS and revenue.

During the three months ended March 31, 2023, mobile GMS increased as a percentage of total GMS to approximately 67%, up from approximately 66% for the three months ended March 31, 2022.

GMS ex-U.S. Domestic

GMS ex-U.S. domestic (formerly referred to as Non-U.S. GMS and international GMS) is GMS from transactions in which either (1) the billing address for the seller or (2) the shipping address for the buyer is outside of the United States. GMS ex-U.S. domestic represents all GMS other than GMS from transactions in which the billing address for the seller and the shipping address for the buyer are both in the United States, which we refer to as U.S. Domestic GMS. As noted above in “GMS,” beginning in the first quarter of 2023, GMS ex-U.S. domestic is calculated net of refunds. We believe that GMS ex-U.S. domestic shows the level of engagement of our community outside the United States and demonstrates our ability to grow GMS and revenue.

For the three months ended March 31, 2023, GMS ex-U.S. domestic as a percentage of total GMS was approximately 45%, compared to approximately 44% for the three months ended March 31, 2022. Additionally, we experienced the following (decline)/growth in GMS ex-U.S. domestic and non-U.S. domestic GMS on an as reported and currency-neutral basis for the period presented below:

	Three Months Ended March 31, 2023		
	As Reported	Currency-Neutral	FX Impact
GMS ex-U.S. Domestic	(3)%	1 %	(4)%
Non-U.S. Domestic GMS (1)	(15)%	(8)%	(7)%

(1) Non-U.S. domestic GMS is GMS generated between a non-U.S. buyer and a non-U.S. seller in the same country. As noted above in "GMS," beginning in the first quarter of 2023, Non-U.S. domestic GMS is calculated net of refunds.

The decline in as reported GMS ex-U.S. domestic for the three months ended March 31, 2023 compared with the three months ended March 31, 2022 was primarily driven by the decline in non-U.S. domestic GMS, principally in the United Kingdom, and partially offset by growth in GMS transactions generated between a non-U.S. buyer and a non-U.S. seller in different countries. Additionally, it was negatively impacted by unfavorable exchange rates.

Currency-Neutral GMS Growth

We calculate currency-neutral GMS growth by translating current period GMS for goods sold that were listed in non-U.S. dollar currencies into U.S. dollars using prior year foreign currency exchange rates.

As reported and currency-neutral GMS (decline) / growth for the periods presented below are as follows:

	Quarter-to-Date Period Ended		
	As Reported	Currency-Neutral	FX Impact
March 31, 2023	(4.6)%	(2.6)%	(2.0)%
March 31, 2022	3.5 %	4.8 %	(1.3)%

Results of Operations

The following tables show our results of operations for the periods presented and express the relationship of line items as a percentage of revenue for those periods. The period-to-period comparison of historical financial results is not necessarily indicative of future results. For more information regarding the components of our results of operations, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Components of Our Results of Operations” in the Annual Report, which we incorporate by reference.

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Revenue:		
Marketplace	\$ 467,516	\$ 427,691
Services	173,361	151,575
Total revenue	640,877	579,266
Cost of revenue	195,453	172,995
Gross profit	445,424	406,271
Operating expenses:		
Marketing	171,314	154,280
Product development	115,924	89,476
General and administrative	79,987	78,200
Total operating expenses	367,225	321,956
Income from operations	78,199	84,315
Other income, net	3,072	1,672
Income before income taxes	81,271	85,987
(Provision) benefit for income taxes	(6,734)	122
Net income	\$ 74,537	\$ 86,109

	Three Months Ended March 31,	
	2023	2022
Revenue:		
Marketplace	72.9 %	73.8 %
Services	27.1	26.2
Total revenue	100.0	100.0
Cost of revenue	30.5	29.9
Gross profit	69.5	70.1
Operating expenses:		
Marketing	26.7	26.6
Product development	18.1	15.4
General and administrative	12.5	13.5
Total operating expenses	57.3	55.6
Income from operations	12.2	14.6
Other income, net	0.5	0.3
Income before income taxes	12.7	14.8
(Provision) benefit for income taxes	(1.1)	—
Net income	11.6 %	14.9 %

Comparison of Three Months Ended March 31, 2023 and 2022

Revenue

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
(in thousands, except percentages)				
Revenue:				
Marketplace	\$ 467,516	\$ 427,691	\$ 39,825	9.3 %
Percentage of total revenue	72.9 %	73.8 %		
Services	\$ 173,361	\$ 151,575	\$ 21,786	14.4 %
Percentage of total revenue	27.1 %	26.2 %		
Total revenue	<u>\$ 640,877</u>	<u>\$ 579,266</u>	\$ 61,611	10.6 %

Revenue increased \$61.6 million to \$640.9 million in the three months ended March 31, 2023 compared to the three months ended March 31, 2022, of which 72.9% consisted of Marketplace revenue and 27.1% consisted of Services revenue.

Marketplace revenue increased \$39.8 million to \$467.5 million in the three months ended March 31, 2023 compared to the three months ended March 31, 2022. This growth was substantially due to the impact of the pricing update to increase our seller transaction fee for the Etsy marketplace from 5% to 6.5% beginning on April 11, 2022. This increase was partially offset by volume of GMS which decreased for the three months ended March 31, 2023 compared to March 31, 2022, and was primarily driven by a decline in GMS for the Etsy marketplace. These drivers impacted transaction fee revenue, which increased by 16.5% year-over-year. The share of Etsy marketplace GMS processed through our Etsy Payments platform was 93% for the three months ended March 31, 2023 compared to 92% for the three months ended March 31, 2022.

Services revenue increased \$21.8 million to \$173.4 million in the three months ended March 31, 2023 compared to the three months ended March 31, 2022. The growth in Services revenue was primarily driven by an increase of 17.7% in on-site advertising revenue, which represented a significant majority of the overall Services revenue increase. The increase in advertising revenue was due to higher click volume on Etsy Ads.

Cost of Revenue

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
(in thousands, except percentages)				
Cost of revenue	\$ 195,453	\$ 172,995	\$ 22,458	13.0 %
Percentage of total revenue	30.5 %	29.9 %		

Cost of revenue increased \$22.5 million to \$195.5 million in the three months ended March 31, 2023 compared to the three months ended March 31, 2022. The increase was partially driven by employee compensation-related expenses, including stock-based compensation, mainly driven by an increase in average headcount. Additionally, cost of revenue increased due to an increase in cloud-related hosting and bandwidth costs, credit card chargebacks, costs of refunds made to buyers that we are not able to collect from sellers, and payments processing fees, which vary with revenue.

Operating Expenses

Marketing

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
(in thousands, except percentages)				
Marketing	\$ 171,314	\$ 154,280	\$ 17,034	11.0 %
Percentage of total revenue	26.7 %	26.6 %		

Marketing expenses increased \$17.0 million to \$171.3 million in the three months ended March 31, 2023 compared to the three months ended March 31, 2022, primarily due to increased Etsy marketplace digital marketing costs, as we continued to invest in efficient channels and regions with positive return on investment, and to a lesser extent, in non-digital marketing costs, due to an increase in marketing expenses related to the production of new creative for our Etsy marketplace TV ads in North America and the U.K. Paid GMS was 21% of overall GMS for the three months ended March 31, 2023 compared to 18% for the three months ended March 31, 2022.

Product development

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
(in thousands, except percentages)				
Product development	\$ 115,924	\$ 89,476	\$ 26,448	29.6 %
Percentage of total revenue	18.1 %	15.4 %		

Product development expenses increased \$26.4 million to \$115.9 million in the three months ended March 31, 2023 compared to the three months ended March 31, 2022, primarily due to increased employee compensation-related expenses, including stock-based compensation, mainly driven by an increase in average headcount and the issuance of equity awards as part of our compensation strategy.

General and administrative

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
(in thousands, except percentages)				
General and administrative	\$ 79,987	\$ 78,200	\$ 1,787	2.3 %
Percentage of total revenue	12.5 %	13.5 %		

General and administrative expenses increased \$1.8 million to \$80.0 million in the three months ended March 31, 2023 compared to the three months ended March 31, 2022, primarily due to increased employee compensation-related expenses, including stock-based compensation, mainly driven by an increase in average headcount and partially offset by a decrease in Depop deferred consideration expense. This increase was also partially offset by net favorable impacts of non-income tax items.

Other Income, net

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
(in thousands, except percentages)				
Other income, net	\$ 3,072	\$ 1,672	\$ 1,400	83.7 %
Percentage of total revenue	0.5 %	0.3 %		

Other income, net was \$3.1 million in the three months ended March 31, 2023, which increased \$1.4 million from other income, net of \$1.7 million in the three months ended March 31, 2022. This increase was primarily driven by an increase in interest and other income. This increase was partially offset by less favorable changes in U.S. dollar, Euro, Pound Sterling, and Canadian dollar exchange rates in the current year versus the prior year which impact our intercompany and other non-functional currency cash balances.

(Provision) Benefit for Income Taxes

	Three Months Ended March 31,		Change	
	2023	2022	\$	%
(in thousands, except percentages)				
(Provision) benefit for income taxes	\$ (6,734)	\$ 122	\$ (6,856)	(5,619.7)%
Percentage of total revenue	(1.1)%	— %		

Our income tax provision and benefit for the three months ended March 31, 2023 and 2022 was \$6.7 million and \$0.1 million, respectively.

The primary drivers of our income tax provision for the three months ended March 31, 2023 were tax expense on income before income taxes, partially offset by a benefit related to research and development tax credits.

The primary drivers of our income tax benefit for the three months ended March 31, 2022 were tax benefits from employee stock-based compensation of \$10.4 million, partially offset by tax expense on income before income taxes.

Non-GAAP Financial Measures

The following table reflects the reconciliation of net income to Adjusted EBITDA and the calculation of Adjusted EBITDA margin for each of the periods indicated:

	Three Months Ended March 31,	
	2023	2022
	(in thousands, except percentages)	
Net income	\$ 74,537	\$ 86,109
Excluding:		
Interest and other non-operating (income) expense, net	(5,689)	3,290
Provision (benefit) for income taxes	6,734	(122)
Depreciation and amortization	23,172	24,754
Stock-based compensation expense	68,683	49,271
Foreign exchange loss (gain)	2,618	(4,962)
Acquisition-related expenses	289	858
Adjusted EBITDA	<u>\$ 170,344</u>	<u>\$ 159,198</u>
Divided by:		
Revenue	<u>\$ 640,877</u>	<u>\$ 579,266</u>
Adjusted EBITDA margin	<u>26.6 %</u>	<u>27.5 %</u>

Liquidity and Capital Resources

Cash and cash equivalents and short-term investments were \$1.0 billion as of March 31, 2023. Additionally, we have \$57.0 million in long-term investments that we can liquidate at short notice and with minimal penalties if needed. We also have the ability to draw down on our \$400.0 million senior secured revolving credit facility. In the three months ended March 31, 2023, we had positive operating cash flows of \$55.6 million. We believe that this capital structure, as well as the nature and framework of our business, will allow us to meet all debt covenants, sustain our business operations, and be able to react to changing macroeconomic conditions.

The following table shows our cash and cash equivalents, short-term investments, long-term investments, and net working capital as of the date indicated:

	As of March 31, 2023
	(in thousands)
Cash and cash equivalents	\$ 786,796
Short-term investments	252,666
Long-term investments	57,028
Total cash and cash equivalents, and short- and long-term investments	<u>\$ 1,096,490</u>
Net working capital	<u>\$ 845,833</u>

As of March 31, 2023, a majority of our cash and cash equivalents, which were primarily held in cash deposits and money market funds, were held in the United States for future investments, working capital funding, and general corporate purposes. We fund our non-U.S. operations from our funds held in the United States on an as-needed basis.

We typically invest in short- and long-term instruments, including fixed-income funds and U.S. Government securities aligned with our investment strategy. These investments are intended to allow us to preserve our principal, maintain the ability to meet our liquidity needs, deliver positive yields across a balanced portfolio, and continue to provide us with direct fiduciary control. In accordance with our investment policy, all investments, other than investments made through our Impact Investment Fund, have maturities no longer than 37 months, with the average maturity of these investments maintained at 12 months or less.

Sources of Liquidity

As of March 31, 2023, we had three outstanding series of convertible senior notes, and collectively the net carrying value is \$2.3 billion. Based on the terms of the Notes, we have the option to pay or deliver cash, shares of our common stock, or a combination thereof, when a conversion notice is received. Based on the daily closing prices of our stock during the quarter ended March 31, 2023, holders of the 2021 Notes, 2020 Notes, and remaining 2019 Notes are not eligible to convert their Notes during the second quarter of 2023.

We also have the ability to draw down on a \$400.0 million senior secured revolving credit facility (the “2023 Credit Agreement”). At March 31, 2023, we did not have any borrowings under the 2023 Credit Agreement.

See Part I, Item 1, “Note 7—Debt” for more information on the Notes and the 2023 Credit Agreement.

We believe that our existing cash and cash equivalents and short- and long-term investments, together with cash generated from operations, will be sufficient to meet our anticipated operating cash needs for at least the next 12 months. While this belief is based on our current expectations and assumptions in light of current macroeconomic conditions, our future capital requirements and the adequacy of available funds will depend on many factors, including those described in Part II, Item 1A, “Risk Factors” in this Quarterly Report.

Historical Cash Flows

	Three Months Ended March 31,	
	2023	2022
	(in thousands)	
Cash provided by (used in):		
Operating activities	\$ 55,631	\$ 59,544
Investing activities	(36,097)	(10,155)
Financing activities	(158,548)	(72,283)

Net Cash Provided by Operating Activities

Our cash flows from operations are largely dependent on the amount of revenue generated on our platforms, as well as associated cost of revenue and other operating expenses. Our primary source of cash from operating activities is cash collections from our customers. Net cash provided by operating activities in each period presented has been influenced by changes in working capital.

Net cash provided by operating activities was \$55.6 million in the three months ended March 31, 2023, primarily driven by cash net income of \$165.9 million as a result of revenue generated on our platforms, and changes in our operating assets and liabilities that used \$110.3 million in cash, primarily driven by timing of payment of accrued expenses in the period.

Net cash provided by operating activities was \$59.5 million in the three months ended March 31, 2022, primarily driven by cash net income of \$150.5 million as a result of revenue generated on our platforms, and changes in our operating assets and liabilities that used \$90.9 million in cash, primarily driven by timing of payment of accrued expenses in the period.

Net Cash Used in Investing Activities

Our primary investing activities consist of purchases and sales and maturities of short- and long-term investments and capital expenditures, including investments in capitalized website development and internal-use software and purchases of property and equipment to support our overall business growth.

Net cash used in investing activities was \$36.1 million in the three months ended March 31, 2023. This was primarily attributable to net purchases of investments of \$27.9 million, and to a lesser extent, \$8.2 million in capital expenditures, including \$6.0 million for website development and internal-use software as we continued to invest in projects adding new features and functionality to our platforms.

Net cash used in investing activities was \$10.2 million in the three months ended March 31, 2022. This was primarily attributable to \$9.2 million in capital expenditures, including \$6.0 million for website development and internal-use software.

Net Cash Used in Financing Activities

Our primary financing activities include repurchases of common stock, payment of tax obligations on vested equity awards, proceeds from exercise of stock options, payments of debt issuance costs, payments on finance lease obligations, and settlement of convertible senior notes.

Net cash used in financing activities was \$158.5 million in the three months ended March 31, 2023. This was primarily attributable to stock repurchases of \$148.2 million, and to a lesser extent, payment of tax obligations on vested equity awards of \$9.2 million.

Net cash used in financing activities was \$72.3 million in the three months ended March 31, 2022. This was primarily attributable to stock repurchases of \$62.6 million, and to a lesser extent, payment of tax obligations on vested equity awards of \$12.3 million.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, equity, revenue, expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. We continue to monitor the effects of global macroeconomic and geopolitical factors on our results of operations, cash flows, and financial position. We believe we have used reasonable estimates and assumptions in preparing the condensed consolidated financial statements. Our actual results could differ from these estimates.

There have been no significant changes to our critical accounting policies and estimates included in our Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Management believes there are no material changes to our quantitative and qualitative disclosures about market risks during the three months ended March 31, 2023, compared to those disclosed in the Annual Report.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2023. "Disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2023 at the reasonable assurance level.

Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving the desired control objectives. Our management recognizes that any control system, no matter how well designed and operated, is based upon certain judgments and assumptions and cannot provide absolute assurance that its objectives will be met. Similarly, an evaluation of controls cannot provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) or 15d-15(d) of the Exchange Act during the first quarter of 2023 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings.

See Part I, Item 1, “Note 8—Commitments and Contingencies—Legal Proceedings.”

Item 1A. Risk Factors.

Investing in our securities involves a high degree of risk. You should consider carefully the risks and uncertainties described below, our Condensed Consolidated Financial Statements and related notes, and the other information in this Quarterly Report on Form 10-Q. If any of these risks actually occur, our business, financial condition, results of operations, and prospects could be adversely affected. As a result, the price of our securities could decline and you could lose part or all of your investment. In addition, factors other than those discussed below or in other of our reports filed with or furnished to the SEC also could adversely affect our business, financial condition, or results of operations. We cannot assure you that the risk factors described below or elsewhere in our reports address all potential risks that we may face. These risk factors also serve to describe factors which may cause our results to differ materially from those described in forward-looking statements included herein or in other documents or statements that make reference to this Quarterly Report. For more information, see the “Note Regarding Forward-Looking Statements.”

Operational Risks Related to Our Business

We experienced rapid growth in our business during 2020 and 2021 and there may not be sustained demand for our services or the products sold in our marketplaces. We also may not have the infrastructure or operational resources or otherwise be able to support our recent growth.

During 2020 and 2021, we experienced rapid growth in our business, in the number of buyers and sellers, and purchase frequency. Our growth may not be sustainable. While our revenue growth continued in 2022 and the first quarter of 2023, our GMS for the quarter ended March 31, 2023 declined as compared to the quarter ended March 31, 2022. Additionally, our business may continue to be impacted by macroeconomic factors beyond our control such as inflation, rising interest rates, disruptions to the banking industry, potential recessionary factors, foreign exchange rate volatility, COVID-19 pandemic related factors, changing consumer shopping preferences, increased consumer spending on travel and other discretionary items, global geopolitical uncertainties, supply-chain disruptions, and employment levels, among others (collectively, “Macroeconomic Conditions”), as well as risk of further declines in active buyers.

Even if our revenue continues to grow, we may not be able to maintain profitability in the future. Our costs have and may continue to increase as we continue to invest in the development of our marketplaces, including our services and technological enhancements, and as we increase our marketing efforts, expand our operations, and hire additional employees. Further, the growth of our business places significant demands on our management team and pressure to expand our operational, compliance, payments, and financial infrastructure. For example, we may need to continue to develop and improve our operational, financial, compliance, payments, and management controls and enhance our reporting systems and procedures to support our recent and any future growth.

If we do not manage our growth effectively, the increases in our cash operating expenses could outpace any increases in our revenue and our business could be harmed. In addition, our revenue may decline and our revenue growth rate may decelerate for a number of reasons, including as a result of geopolitical events, global macroeconomic uncertainty, the abatement of the COVID-19 pandemic, and other factors described elsewhere in these Risk Factors. For further information, see Part I, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Revenue.” You should not rely on prior periods as an indication of our future performance.

The trustworthiness of our marketplaces and the connections within our communities are important to our success. If we are unable to retain our existing buyers and sellers and activate new ones, our financial performance could decline.

Creating trusted brands is one of the key elements of our strategy. We are focused on ensuring that our marketplaces embody our mission and values, and that we deliver trust and reliability throughout the buyer and seller experiences. Our reputation and brands depend, in part, upon our ability to maintain trustworthy marketplaces, and also upon our sellers, the quality of their offerings, their adherence to our policies, and their ability to deliver a trusted purchasing experience. We view the trustworthiness and reliability of our marketplaces, as well as the connections we foster in our buyer/seller communities, to be cornerstones of our business and key to our success. Many things could undermine these cornerstones, such as:

- a failure to operate our business in a way that is consistent with our guiding principles and mission;
- an inability to gain the trust of prospective buyers;

- disruptions or defects in our marketplaces, privacy or data security incidents, website outages, payment disruptions, or other incidents that impact the reliability of our platforms;
- lack of awareness of, or adherence to, our policies by our communities or confusion about how they are applied;
- a failure to enforce our policies effectively, consistently, and transparently, including, for example, by allowing the repeated widespread listing of prohibited items in our marketplaces;
- changes to our policies or fees that members of our communities perceive as inconsistent with their best interests or our mission, or that are not clearly articulated;
- complaints or negative publicity about us, our platforms, or our policies and guidelines, even if factually incorrect or based on isolated incidents;
- inadequacies in our House Rules, policies, and other terms of use;
- frequent product launches, updates, and experiments that could deteriorate member trust and/or engagement; or
- inadequate or unsatisfactory customer service experiences, failure to adequately respond to feedback from our communities, or inability of our sellers to fulfill their orders in accordance with our policies, their own shop-specific policies, or buyer expectations.

Our increased size has made and may continue to make us a more attractive target to bad actors and fraudsters targeting our marketplaces and our communities, civil litigants, and those seeking to enforce alleged intellectual property rights and/or alleged contractual rights. Our increased visibility has led and may continue to lead to attempts to misrepresent or mischaracterize us or our marketplaces, such as on social media, or via individual or coordinated campaigns. We may not be successful in defending against these types of claims which, if successful, could damage our brands and our business. Even if we are successful in defending against these types of claims, we may be required to spend significant resources in those efforts which may distract our management and otherwise negatively impact our results of operations. In addition, the recent increased scrutiny and regulation of marketplace platforms, even though principally focused on other larger platforms, has and may continue to create burdens on both Etsy and its communities of buyers and sellers. This may lead to increased risks that shift more quickly than our policies, enforcement mechanisms, and systems can react.

We continue to evolve our marketplaces and invest to improve our customer experience. If our efforts are unsuccessful, or if our customer service platforms or our trust and safety program fail to meet legal requirements or buyers' and sellers' expectations, we may need to invest significant additional resources. If we are unable to maintain trusted brands and marketplaces, our ability to attract and retain buyers and sellers could be harmed.

Our business, financial performance, and growth depends on our ability to attract and retain active and engaged communities of buyers and sellers.

Our financial performance, specifically our GMS, revenue, and Adjusted EBITDA, has been and will continue to be significantly determined by our success in attracting and retaining active buyers and active sellers and increasing their engagement. We believe that many new buyers and sellers find us by word of mouth and other non-paid referrals from existing buyers and sellers. If existing buyers do not find our platforms appealing, for example, because of a negative experience, lack of competitive shipping costs, delayed shipping times, inadequate customer service, lack of buyer-friendly features, declining interest in the goods offered by our sellers, or other factors, they may make fewer purchases and they may not refer others to us. Likewise, if existing sellers are dissatisfied with their experience on our platforms, or feel they have more attractive alternatives, they may stop listing items in our marketplaces and using our services and may stop referring others to us, which could negatively impact our financial performance.

In addition, our GMS and revenue are concentrated in our most active buyers and sellers. The early part of the pandemic fueled an unprecedented increase in the growth of active buyers, and the number of active buyers remains significantly above pre-pandemic levels although in recent quarters we have seen the number of active buyers on the Etsy marketplace decline on a year-over-year basis as peak periods have rolled out of the trailing twelve month figure. If we lose a significant number of buyers or sellers due to the pressure on or shifts in consumer discretionary spending, increased seller fees, or otherwise, our financial performance and growth could be harmed. Even if we are able to attract new buyers and sellers to replace the ones that we lose, we may not be able to do so at comparable levels, they may not maintain the same level of activity, and the GMS and revenue generated from new buyers and sellers may not be as high as the GMS and revenue generated from the ones who leave our marketplaces. If we are unable to attract and retain buyers and sellers our business, financial performance, and growth could be harmed.

Additionally, the demand for the goods listed in our marketplaces is dependent on consumer preferences, which can and do change quickly and may differ across generations, genders, and cultures. If demand for the goods that our sellers offer declines, or if demand for goods falls and is not replaced by demand in new or different categories, we may not be able to attract and

retain buyers and our business could be harmed. Further, a shift in trends away from unique or vintage goods, socially-conscious consumerism, second-hand fashion, or specialty items such as musical instruments, could also make it more difficult to attract new buyers and sellers. Under any of these circumstances, we may have difficulty attracting new buyers and sellers without incurring additional expense.

We rely on our sellers to provide a fulfilling experience to our buyers.

A small portion of buyers complain to us about their experience on our platforms. As a pure marketplace, our sellers manage their shops, most policies, products and product descriptions, shipping and returns. As a result, we do not have the ability to control important aspects of buyers' experiences on our platforms. For example, buyers may report that they have not received the items that they purchased, that the items received were not as represented by a seller, or that a seller has not been responsive to their questions. While we have introduced new ways to protect buyers, negative publicity and sentiment generated as a result of these types of complaints, or any associated enforcement action taken against sellers, could reduce our ability to attract and retain our sellers and buyers or damage our reputation.

Similarly, we rely on sellers to be responsive to buyers and to fulfill orders to buyers. Anything that prevents the timely processing of orders or delivery of goods to our buyers could harm our sellers. Service interruptions and delivery delays may be caused by events that are beyond the control of our sellers, such as interruptions in order or payment processing, interruptions in sellers' supply chain, transportation disruptions, customs delays, natural disasters, inclement weather, terrorism, public health crises, or political unrest. Additionally, popular or trending sellers may experience an influx of orders that may be beyond their ability to fulfill in a timely manner. While we have procedures designed to mitigate spikes in orders, we cannot guarantee those procedures will be effective. If buyers have a negative purchase experience, whether due to service interruptions or other reasons, or if sellers are unable to timely fulfill their orders to buyers, our reputation could be damaged.

A perception that our levels of responsiveness and support for our sellers and buyers are inadequate could damage our reputation, and reduce our sellers' willingness to sell and buyers' willingness to shop on our marketplaces. In some situations, we may choose to reimburse our buyers for their purchases to help avoid harm to our reputation. For example, we offer Etsy Purchase Protection, a program that refunds buyers when a qualifying order is not received or arrives damaged. While for qualifying orders under Etsy Purchase Protection we cover the reimbursement and not the seller, we also take steps such as requiring reserves, including to cover certain reimbursements that do not relate to qualified orders, from some sellers based on indications they may not be able to fulfill orders and other factors. Despite our efforts, we are not always, and in the future may not be, able to recover the funds we expend for reimbursements unrelated to qualified orders and our cost to refund qualifying orders may exceed our expectations which could impact our financial performance. When we do recover funds used to reimburse buyers from sellers, it may increase general seller dissatisfaction and reduce their desire to continue selling using our platforms. Although we are focused on enhancing customer service, our efforts may be unsuccessful and our sellers and buyers may be disappointed in their experience and not return.

As our marketplaces grow, our controls over fraud and policy violations are important to maintaining user trust, but they may not be adequate and may not be sufficient to keep up with quickly-shifting techniques used by those attempting to undertake fraudulent activity on our platforms. We take action against sellers who we are aware may have violated our policies. However, our actions may be insufficient, may not be timely, and may not be effective in creating a good purchase experience for our buyers or avoiding negative publicity. While we regularly update our processes for handling complaints and detecting policy violations, these processes are by their nature imperfect in a dynamic marketplace, and include risk to us, our sellers, and our buyers from both under-enforcement and over-enforcement.

The unprecedented COVID-19 pandemic has impacted, and may continue to impact, our GMS and results of operations in numerous volatile and unpredictable ways.

Uncertainty caused by the COVID-19 pandemic has impacted and may continue to impact the global economy and e-commerce spending. The COVID-19 pandemic and related government and private sector responsive actions have affected the broader economies and financial markets and have at points adversely affected, and could again adversely affect, demand for products sold in our marketplaces. Despite the widespread availability of COVID-19 vaccines, due to the continuing and evolving nature of COVID-19, the potential for periods of increases in case numbers and the emergence and spread of virus variants in communities in which we and our customers operate, it is impossible to predict all the effects and the ultimate impact of COVID-19.

Our results of operations have also been positively impacted by several trends related to the COVID-19 pandemic, including the shift from offline to online shopping, fast moving dynamics in the e-commerce space, retail business closures and re-openings, stimulus checks, and "stay at home" practices or mandates. Competition has intensified as buyers returned to traditional brick-and-mortar retail stores. It is difficult to predict what lasting effects the COVID-19 pandemic and the macroeconomic patterns created as a result will have on consumer spending patterns and e-commerce generally.

The full extent of COVID-19's impact on our operations, key metrics, and financial performance depends on future developments that are uncertain and unpredictable, including the occurrence of virus mutations and variants, the impact on capital and financial markets, and any new information that may emerge concerning the virus and vaccines or treatments, all of which may

vary across regions. Any of these factors could have a material adverse impact on our business, financial condition, operating results, and ability to execute and capitalize on our strategies.

Our quarterly operating results may fluctuate, which could cause significant stock price fluctuations.

Our quarterly operating results, as well as our key metrics, may fluctuate for a variety of reasons, many of which are beyond our control, including:

- fluctuations in GMS or revenue, including as a result of uncertainty or changing spending patterns resulting from Macroeconomic Conditions, the seasonality of market transactions, and our sellers' use of services;
- adverse economic and market conditions, including declines in consumer discretionary spending, currency fluctuations, rapidly rising inflation, supply gluts or shortages, and adverse global events;
- uncertainty regarding overall levels of consumer spending and e-commerce generally;
- our success in attracting and retaining sellers and buyers;
- our ability to convert marketplace visits into sales for our sellers;
- the amount and timing of our operating expenses;
- our success in executing on our strategy and the impact of any changes in our strategy;
- the timing and success of product launches, including new services and features we may introduce;
- the success of our marketing efforts;
- the success of our "House of Brands" strategy, including Depop and Elo7, each of which we acquired in 2021, and Reverb, which we acquired in 2019;
- disruptions or defects in our marketplaces, such as privacy or data security breaches, errors in our software, or other incidents that impact the availability, reliability, or performance of our platforms;
- the impact of competitive developments and our response to those developments;
- our ability to manage our business and future growth; and
- our ability to recruit and retain employees.

Our business may continue to be impacted by Macroeconomic Conditions, which may adversely affect us or the third parties on whom we rely. If the equity and credit markets deteriorate, including as a result of political unrest or war, it may make any necessary debt or equity financing more difficult to obtain in a timely manner, on favorable terms, more costly, or more dilutive. Increased inflation rates can adversely affect us by increasing our costs, including labor and employee benefit costs. In addition, higher inflation and macroeconomic turmoil and uncertainty could also adversely affect our buyers and sellers, which could reduce demand for the products sold in our marketplaces.

Fluctuations in our quarterly operating results, key metrics, and the price of our common stock may be particularly pronounced in the current economic environment due to the uncertainty caused by the Macroeconomic Conditions and changes in consumer spending patterns. Fluctuations in our quarterly operating results and key metrics may cause those results to fall below our financial guidance or other projections, or the expectations of analysts or investors, which could cause the price of our common stock to decline. Fluctuations in our results could also cause a number of other problems. For example, analysts or investors might change their models for valuing our common stock, we could experience short-term liquidity issues, our ability to retain or attract key personnel may diminish, and other unanticipated issues may arise.

We believe that our quarterly operating results and key metrics may vary in the future and that period-to-period comparisons of our operating results may not be meaningful. You should not rely on quarter-to-quarter or any other period-to-period comparisons of our results of operations as an indication of future performance.

We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which could cause our stock price to decline.

From time to time, we release earnings guidance in our earnings conference calls, earnings releases, or otherwise, regarding our expected future performance that represents our management's estimates as of the date of release. On May 3, 2023, we provided guidance for the second quarter of 2023. This guidance includes forward-looking statements based on projections

prepared by our management. Projections are based upon a number of assumptions and estimates that are based on information known when they are issued, and, while presented with numerical specificity, are inherently subject to significant business, economic, and competitive uncertainties and contingencies relating to our business, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. Some of those key assumptions include the timing and impact of broad Macroeconomic Conditions, particularly in our core markets, and the resulting impact of these factors on future consumer spending patterns and our business. These assumptions are inherently difficult to predict, particularly in the long-term.

We generally state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed but are not intended to imply that actual results could not fall outside of the suggested ranges. Furthermore, analysts and investors may develop and publish their own projections of our business, which may form a consensus about our future performance. Our actual business results may vary significantly from such guidance or consensus due to Macroeconomic Conditions or other factors, many of which are outside of our control, which could adversely affect our business and future operating results. We use the reports and models of economic experts in making assumptions relating to consumer discretionary spending and predictions as to timing and pace of any future economic impacts. If these models are incorrect or incomplete, or if we fail to accurately predict the full impact that Macroeconomic Conditions or other factors will have on all aspects of our business or the duration of those impacts, the guidance and other forward-looking statements we provide may also be incorrect or incomplete. Furthermore, if we make downward revisions of our previously announced guidance, or if our publicly announced guidance of future operating results fails to meet expectations of securities analysts, investors, or other interested parties, the price of our common stock could decline.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release. Actual results may vary from our guidance and the variations may be material. In light of the foregoing, investors are urged not to rely upon our guidance in making an investment decision regarding our common stock.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this Risk Factors section in this report could result in the actual operating results being different from our guidance, and the differences may be adverse and material.

We track certain operational metrics with internal systems and tools and do not independently verify such metrics. Certain of these metrics are subject to inherent challenges in measurement, and any real or perceived inaccuracies may adversely affect our business and reputation.

We track certain operational metrics, including active buyers and active sellers, GMS, including mobile GMS, GMS ex-U.S. domestic, GMS from specific categories of goods or classes of buyers or sellers, and other information about our communities, including with internal systems and tools that are not independently verified by a third-party. The methodologies used to measure certain of these metrics require significant judgment, are susceptible to errors, and may differ from estimates or metrics published by third parties due to differences in sources, methodologies, or the assumptions on which we rely. We also use surveys to collect and track information about our buyers and sellers and rely on third-party data to evaluate and report on our opportunity. Our internal systems and tools have a number of limitations, and our surveys or data collection methodologies may have errors or could change over time, which could result in unexpected changes to our metrics, including the metrics we publicly disclose. If the internal systems and tools or surveys we use to track these metrics under count or over count performance or contain algorithmic or other technical errors, the data we report may not be accurate. While these numbers are based on what we believe to be reasonable estimates of our metrics, there are inherent challenges in measuring this data. In addition, limitations or errors with respect to how we measure data or with respect to the data that we measure may affect our understanding of certain details of our business, which could affect our long-term strategies. If our operating metrics are not accurate, or if investors do not perceive them to be accurate, investors may lose confidence in our operating metrics and business and we expect that we could be subject to legal claims, and our business, reputation, financial condition, and results of operations would be adversely affected.

If we experience a technology disruption or failure that results in a loss of information, if personal data or sensitive information about members of our communities or employees is misused or disclosed, or if we or our third-party providers are unable to protect against software and hardware vulnerabilities, service interruptions, cyber incidents, ransomware, security incidents, or other security breaches, then members of our communities may curtail use of our platforms, we may be exposed to liability or incur additional expenses, and our reputation might suffer.

Like all online services, we are vulnerable to power outages, telecommunications failures, and catastrophic events, as well as computer viruses, break-ins, intentional or accidental actions or inaction by employees or others with authorized access to our networks, phishing attacks, denial-of-service attacks, malicious or destructive code, malware, ransomware attacks, and other cyber attacks, breaches and security incidents. We have experienced in the past, and may experience in the future, technology disruptions, cyber incidents, and security breaches, including intentional, inadvertent, or social engineering breaches occurring

through Etsy or third-party service provider technical issues, vulnerabilities, or employees. Any of these occurrences could lead to interruptions or shutdowns of one or more of our platforms, loss of data, unauthorized disclosure of personal or financial information of our members or employees, or theft of our intellectual property or user data. Furthermore, if our employees or employees of our third-party service providers fail to comply with our internal security policies and practices, member or employee data may be improperly accessed, used, or disclosed. As we continue to grow our business, expand internationally, and gain greater public visibility, we may continue to face a higher risk of being targeted by cyber attacks.

Although we have integrated a variety of recovery systems, security protocols, network protection mechanisms and other security measures into our systems, networks and physical facilities, including security testing, encryption of sensitive information, and authentication technology, we cannot assure you that such measures, which are designed to protect against, detect, and minimize security breaches, will be adequate to prevent or detect service interruption, system failure, data loss or theft, or other material adverse consequences, directly or through our vendors. While we continue to invest in recovery systems, security and access controls, and assessments of our vendors' security for us and our acquired subsidiaries, some of these systems and controls are not yet fully in place and, even when in place, have not always been in the past, and in the future may not be, sufficient to prevent or detect a cyber attack, system failure, or security breach particularly given the increasingly sophisticated tools and methods used by hackers, state actors, organized cyber criminals, and cyber terrorists. The costs and effort to respond to a security breach and/or to mitigate any security vulnerabilities that may be identified could be significant, our efforts to address these problems may not be successful, and these problems could result in unexpected interruptions, delays, cessation of service, negative publicity, and other harm to our business and our competitive position. We could be required to fundamentally change our business activities and practices in response to a security breach or related regulatory actions or litigation, which would have an adverse effect on our business.

We operate in a hybrid work environment where more than half of our workforce is fully remote, and as a result, we and our partners may be more vulnerable to cyber attacks. In addition, the industry has generally moved to online remote infrastructure for core work. If a natural disaster, power outage, connectivity issue, or other event that impacted our employees' ability to work remotely were to occur, it may be difficult or, in certain cases, impossible, for us to operate our business for a substantial period of time. The increase in remote working for employees, vendors, or contractors may also result in increased consumer privacy, IT security, and fraud concerns or increased administrative costs.

Our security and access controls for our systems may not be adequate, which may heighten the risk of a cyber attack or security breach. Among other things, our applications, systems, networks, software and physical facilities could have material vulnerabilities, be breached or the personal or confidential information that we store could be otherwise compromised due to employee error or malfeasance, if, for example, third parties attempt to fraudulently induce our employees or our members to disclose information or user names and/or passwords, or otherwise compromise the security of our networks, systems and/or physical facilities. As in the past, employees or service providers may inadvertently misconfigure resources or misdirect certain communications in manners that may lead to security incidents which could be expensive and time consuming to correct.

A successful cyber attack could occur and persist for an extended period of time before being detected. Because the techniques used by hackers change frequently, we may be unable to anticipate these techniques or implement adequate preventive measures. In addition, because any investigation of a cybersecurity incident would be inherently unpredictable, the extent of a particular cybersecurity incident and the path of investigating the incident may not be immediately clear. It may take a significant amount of time before an investigation can be completed and full and reliable information about the incident is known. While an investigation is ongoing, we may not necessarily know the extent of the harm or how best to remediate it, certain errors or actions could be repeated or compounded before they are discovered and remediated, and communication to the public, regulators, members of our communities, and other stakeholders may be inaccurate or incomplete, any or all of which could further increase the costs and consequences of a cybersecurity incident. Applicable rules regarding how to respond, required notices to users, and reporting to regulators vary by jurisdiction, and may subject Etsy to additional liability and reputational harm.

If we experience, or are perceived to experience, security breaches that result in marketplace performance or availability problems or the loss, compromise or unauthorized disclosure of personal data or other sensitive information, or if we fail to respond appropriately to any security breaches that we may experience, or are perceived to do so, people may become unwilling to provide us the information necessary to set up an account with us. Existing sellers and buyers may also stop listing new items for sale, decrease their purchases, or close their accounts altogether. We could also face damage to our reputation, potential liability, regulatory investigations in multiple jurisdictions, and costly remediation efforts and litigation, which may not be adequately covered by, and which may impact our future access to, insurance. Any of these results could harm our growth prospects, our business, and our reputation for maintaining trusted marketplaces.

Our software is highly complex and may contain undetected errors.

The software underlying our platforms is highly interconnected and complex and may contain undetected errors or vulnerabilities, some of which may only be discovered after the code has been released. We rely heavily on a software engineering practice known as "continuous deployment," meaning that we frequently release software code to our platforms. For the Etsy marketplace platform we typically release software code many times per day. This practice may result in the more frequent introduction of errors or vulnerabilities into the software underlying our platforms, which can impact the user experience

and functionality of our marketplaces. Additionally, due to the interconnected nature of the software underlying our platforms, updates to parts of our code, third-party code, and application programming interfaces, on which we rely and that maintain the functionality of our marketplaces and business, could have an unintended impact on other sections of our code, which may result in errors or vulnerabilities to our platforms that negatively impact the user experience, functionality or accessibility of our marketplaces. In some cases, such as our mobile apps, errors may only be correctable through updates distributed through slower, third-party mechanisms, such as app stores, and may need to comply with third-party policies and procedures to be made available, which may add additional delays due to app review and user delay in updating their mobile apps. In addition, our systems are increasingly reliant on artificial intelligence and machine-learning systems, which are complex, subject to increasing litigation and regulatory scrutiny, and may have errors or inadequacies that are not easily detectable. These systems may inadvertently reduce our efficiency, or may cause unintentional or unexpected outputs that are incorrect, do not match our business goals, do not comply with our policies or applicable legal requirements, or otherwise are inconsistent with our brands, guiding principles, and mission. Any errors or vulnerabilities discovered in our code after release could also result in damage to our reputation, loss of members of our communities, loss of revenue, or liability for damages, any of which could adversely affect our growth prospects and our business.

We rely on Google Cloud for a substantial portion of the computing, storage, data processing, networking, and other services for the Etsy Marketplace. A significant disruption of or interference with our use of Google Cloud would negatively impact our operations and seriously harm our business.

Google Cloud provides a distributed computing infrastructure as a service platform for the Etsy marketplace's business operations. We have migrated the Etsy marketplace's primary production environment and data centers to Google Cloud, increasing our reliance on cloud infrastructure. Any transition of the cloud services currently provided by Google Cloud to another cloud provider would be difficult to implement and would cause us to incur significant time and expense. Our products and services rely in significant part on continued access to, and the continued stability, reliability, and flexibility of Google Cloud. Any significant disruption of, or interference with, our use of Google Cloud would negatively impact our operations, and our business would be seriously harmed. In addition, if hosting costs increase over time and if we require more computing or storage capacity, our costs could increase disproportionately. If we are unable to grow our revenues faster than the cost of utilizing the services of Google or similar providers, our business and financial condition could be adversely affected. Reverb, Depop, and Elo7 rely on Amazon Web Services for their primary production environment, and those marketplaces are thus subject to analogous risks.

Our business depends on third-party services and technology which we utilize to maintain and scale the technology underlying our platforms and our business operations.

Our business operations depend upon a number of third-party service providers, such as cloud service providers, marketing platforms and providers, payments and shipping providers, contingent labor teams, and network and mobile infrastructure providers. Any disruption in the services provided by third-parties, any failure on their part to deliver their services in accordance with our scale and expectations, or any failure on our part to maintain appropriate oversight on these third-party providers during the course of our engagement with them, or appropriate redundancies, could significantly harm our business.

Our production systems rely on internal technology, along with cloud services and software provided by our third-party service providers (and other entities in our supply chain). In the event of a cyber-incident, even partial unavailability of our production systems could impair our ability to serve our customers, manage transactions, or operate our marketplaces. We have implemented disaster recovery mechanisms, including systems to back up key data and production systems, but these systems may be inadequate or incomplete. For example, these disaster recovery systems may be susceptible to cyber-incidents if insufficiently distributed across locations, not sufficiently separated from primary systems, not comprehensive, or not at a scale sufficient to replace our primary systems. Insufficient production and disaster recovery systems could, in the event of a cyber-incident, harm our growth prospects, our business, and our reputation for maintaining trusted marketplaces.

Cyber attacks aimed at disrupting our and our third-party service providers' services regularly occur, and we expect they will continue to occur in the future. If we or our third-party service providers (and other entities in our supply chain) experience any cyber attacks or other security breaches or incidents that result in marketplace performance or availability problems or loss, compromise or unauthorized disclosure or use of personal data or other sensitive information, or if we fail to respond appropriately to any security breaches or incidents that we may experience, people may become unwilling to provide us the information necessary to set up an account with us.

We also rely on the security practices of our third-party service providers, which may be outside of our direct control. Additionally, some of our third-party service providers, such as identity verification and payment processing providers, regularly have access to payment card information and other confidential and sensitive member data. We may have contractual and regulatory obligations to supervise the security and privacy practices of our third-party service providers. Despite our best efforts, if these third parties fail to adhere to adequate security practices, or, as has occurred from time to time in the past, experience a cyber incident or attack such as a breach of their networks, our members' data may be rendered unavailable, improperly accessed, used, or disclosed. More generally, our third-party service providers may not have adequate security and privacy controls, may not properly exercise their compliance, regulatory or notification requirements, including as to personal data, or may not have the resources to properly respond to an incident. Many of our service providers continue to operate in a partial or fully remote work

environment and may, as a result, be more vulnerable to cyber attacks. Consequently, a security incident at any of such service providers or others in our supply chain could result in the loss, compromise, or unauthorized access to or disclosure of sensitive or personal data of our buyers or sellers.

We are unable to exercise significant oversight over some of these providers, which increases our vulnerability to their financial conditions and to problems with the services they provide, such as technical failures, deprecation of key services, privacy or security concerns, and we have from time to time experienced such problems with the services provided by one or more third-parties. Our efforts to update our infrastructure or supply chain may not be successful as we may not sufficiently distribute our risk across providers or geographies or our efforts to do so may take longer than anticipated. If we experience failures in our technology infrastructure or supply chain or do not expand our technology infrastructure or supply chain successfully, then our ability to run our marketplaces could be significantly impacted, which could harm our business.

In addition, our sellers rely on continued and unimpeded access to postal services and shipping carriers to deliver their goods reliably and timely to buyers. As a result of the COVID-19 pandemic, Macroeconomic Conditions, and other factors, our sellers have at times experienced increased delays in delivery of their goods. If these shipping delays continue or worsen, or if shipping rates increase significantly, our sellers may have increased costs, and/or our buyers may have a poor purchasing experience and may lose trust in our marketplaces, which could negatively impact our business, financial performance, and growth.

Our business depends on access to third-party services, platforms and infrastructure that are critical to the successful operation of our business.

Our sellers and buyers rely on access to the internet or mobile networks to access our marketplaces. Internet service providers may choose to disrupt or degrade access to our platforms or increase the cost of such access. We also depend on widely-adopted third-party platforms to reach our customers, such as popular mobile, social, search, and advertising offerings. Internet service providers may choose to disrupt or degrade access to our platforms or increase the cost of such access. Mobile network operators or operating system providers could block or place onerous restrictions on the ability to download and use our mobile apps or deny or condition access to application programming interfaces or documentation, limiting the functionality of our products or services on the platform, including in ways that could require us to make significant changes to our marketplaces, websites, or mobile apps. If we are not able to deliver a rewarding experience on these platforms, if our or our sellers' access to these platforms is limited, if the cost or terms of accessing these platforms increases or changes, or if these large platforms implement features that compete with us or our sellers, then our business may suffer.

Internet service providers, mobile network operators, operating system providers and/or app stores regularly place technical and policy restrictions on applications and platforms that use their services, which restrictions change over time. They have also and could in the future attempt to charge us for, or restrict our ability to access or provide access to, certain platforms, features, or functionality that we use in our business, and such changes may adversely affect our marketplaces.

In addition, the success of our marketplaces could also be harmed by factors outside our control, such as actions taken by providers of mobile and desktop operating systems, social networks, or search and advertising platforms, including:

- policy changes that interfere with, add tolls or costs to, or otherwise limit our ability to provide users with a full experience of our platforms, such as for our mobile apps or social network presence, including policy changes that effectively require us to use the provider's payment processing or other services for transactions on the provider's operating system, network or platform;
- unfavorable treatment received by our platforms, especially as compared to competing platforms, such as the placement of our mobile apps in a mobile app download store;
- increased costs to distribute or use our platforms via mobile apps, social networks, or established search and advertising systems;
- changes in mobile operating systems, such as iOS and Android, that degrade the functionality of our mobile website or mobile apps, our understanding of the data and usage related to our services, or that give preferential treatment to competitive products;
- changes to social networks that degrade the e-commerce functionality, features, or marketing of our services or our sellers' shops and products; or
- implementation and interpretation of regulatory or industry standards by these widely adopted platforms that, as a side effect, degrade the e-commerce functionality, features, or marketing of our services or our sellers' shops and products.

Any of these events could materially and adversely affect our business, financial performance, and growth.

Our payments systems have both operational and compliance risks, including in-house execution risk and dependency on third-party providers.

The payment offerings provided on each of our marketplaces differ and, as such, are subject to varying degrees and types of risk. In particular, each payment offering has a different level of reliance on third parties to perform certain aspects of its services. We have and plan to continue to invest in our payments tools and infrastructure, and have, or may in the future, add or change payment tools and third-party service providers to maintain existing availability, expand into additional markets, and offer new payment methods, offerings, and tools to our buyers and sellers. If we fail to invest adequate resources into our payments platforms, or if our investment efforts are unsuccessful or unreliable, our payments services may not function properly, keep pace with competitive offerings, or comply with applicable laws and regulatory requirements, any of which could negatively impact their usage and our marketplaces, as well as our trusted brands, which, in turn, could adversely affect our GMS and results of operations.

We rely upon third-party service providers to perform key components of our payments platforms, including payments processing and payments disbursing, compliance, currency exchange, identity verification, sanctions screening, tax collection, and fraud analysis. Failure by these service providers to perform adequately, or changes to or termination of our relationships with these service providers, has and could again negatively affect our sellers' ability to receive payments. For example, in the first quarter of 2023, Silicon Valley Bank, one of our payment disbursement providers, collapsed and, as a result, approximately 0.5% of our active sellers experienced a delay (generally one business day) receiving their payments while we engineered a new process flow to enable those sellers to receive payments from another disbursement account.

Disruptions related to our third-party service providers could also potentially affect our sellers' ability to receive orders, our buyers' ability to complete purchases, and our ability to operate our payments program, including maintaining certain compliance measures, including fraud prevention and detection tools. This could decrease revenue, increase costs, lead to potential legal liability, and negatively impact our brands and business. If we (or a third-party payment processor) suffer a security breach affecting payment card information, we could be subjected to fines, penalties, and assessments arising out of the major card brands' rules and regulations, contractual indemnification obligations or other obligations contained in merchant agreements and similar contracts, and we may lose our ability to accept payment cards as payment for our services and our sellers' goods and services.

In addition, we and our third-party service providers may experience service outages from time to time that negatively impact payments on our platforms. We have in the past experienced, and may in the future experience, such payments-related service outages and, if we are unable to promptly remedy or provide an alternative payment solution, our business could be harmed. In addition, if our third-party providers increase the fees they charge us, our operating expenses, or those of our sellers, could increase, and it could negatively impact our sellers' businesses or our business.

Further, our ability to expand our payments services into additional countries is dependent upon the third-party providers we use to support these services. As we continue to expand the availability of our payments services to additional markets or offer new payment methods to our sellers and buyers in the future, we, along with our sellers may become subject to additional and evolving regulations, compliance requirements, and may be exposed to heightened operational and fraud risk, which could lead to an increase in our operating expenses.

Our payments systems are subject to a complex landscape of evolving laws, regulations, rules, and standards.

Various laws and regulations govern payments, and these laws are complex, evolving, and subject to change and vary across different jurisdictions in the United States and globally. Moreover, even in regions where such laws have been harmonized, regulatory interpretations of such laws may differ. As a result, we are required to spend significant time and effort determining whether various licensing and registration laws relating to payments apply to us as our business strategy and operations evolve. In addition, should one of our subsidiaries become regulated as a financial services entity in any jurisdiction, we would be subject to additional regulation. Any failure or claim of our failure to comply, or any failure by our third-party service providers to comply, could cost us substantial resources, result in liabilities, cause us significant reputational damage, or force us to stop offering our payments services in certain markets. Additionally, changes in payment regulation may occur that could render our payments systems non-compliant and/or less profitable.

Further, through our agreements with our third-party payments service providers, we are subject to evolving rules and certification requirements (including, for example, the Payment Card Industry Data Security Standard), or other contractual requirements or expectations that may materially negatively impact our payments business. Failure to comply with these rules or requirements could impact our ability to meet our contractual obligations with our third-party payment processors and could result in potential fines or negatively impact our relationship with our third-party payments processors.

We are also subject to rules governing electronic funds transfers. Any change in these rules and requirements, including as a result of a change in our designation by major payment card providers, could make it difficult or impossible for us to comply and could require a change in our business operations. In addition, similar to a potential increase in costs from third-party providers described above, any increased costs associated with compliance with payment card association rules or payment card provider

rules could lead to increased fees for us or our sellers, which may negatively impact payments on our platforms, usage of our payments services, and our marketplaces.

Our business could be adversely affected by economic downturns, inflation, natural disasters, public health crises, political crises, geopolitical events, or other macroeconomic conditions, which have in the past and may in the future negatively impact our business and financial performance.

Macroeconomic Conditions have and may continue to adversely affect our business. If general economic conditions deteriorate in the United States or other markets where we operate, consumer discretionary spending may decline and demand for the goods and services available on our platforms may be reduced. This would cause our Marketplace and Services revenue to decline and adversely impact our business. For example, the conflict in Ukraine negatively impacted the global economy, including by contributing to a rapid rise in the cost of living (driven largely by higher energy prices) in Europe. As the adverse effects of this conflict continue to develop, both in Europe and throughout the rest of the world, our buyers' discretionary spending may be negatively impacted. In addition, since April 2022, due to expanding sanctions and business restrictions, sellers in Belarus and Russia are unable to access our marketplaces.

Global economic conditions have also generated pressure on consumer discretionary spending. Consumer purchases of discretionary items, including the goods that we offer, generally decline during recessionary periods or periods of economic uncertainty, when disposable income is reduced or when there is a reduction in consumer confidence. Factors that could further affect consumers' willingness to make discretionary purchases include, among others: high levels of unemployment; higher consumer debt levels; reductions in net worth, declines in asset values, disruptions to the banking industry, and related market and macroeconomic uncertainty; home foreclosures and reductions in home values; fluctuating interest rates, increased inflationary pressures and lack of credit availability; rising fuel and energy costs; rising commodity prices; and other general uncertainty regarding the overall future political and economic environment. We have experienced many of these factors, including current inflationary pressures, and are experiencing negative impacts on client demand and discretionary spending as a result. For example, the U.S. Federal Reserve System raised interest rates several times during 2022 in response to concerns about inflation, and has continued to raise interest rates in 2023. Higher interest rates, coupled with reduced government spending and volatility in financial markets, may increase economic uncertainty and affect consumer spending. It is difficult to predict how our business might be impacted by changing consumer spending patterns. In the event of a prolonged economic downturn or acute recession, significant inflation, or increased supply chain disruptions impacting our communities of sellers and the economy as a whole, consumer spending habits could be materially and adversely affected, as could our business, financial condition, operating results, and ability to execute and capitalize on our strategies.

If trends supporting self-employment, and the desire for supplemental income were to reverse, the number of sellers offering their goods in our marketplaces and the number of goods listed in our marketplaces could decline. In addition, currency exchange rates may directly and indirectly impact our business. If the U.S. dollar strengthens or weakens against foreign currencies, particularly if there is short-term volatility, our foreign currency denominated GMS and revenue, when translated into U.S. dollars, could fluctuate significantly. Currency exchange rates may also impact demand for cross-border purchases, which could impact GMS and revenue. For the quarter ended March 31, 2023, approximately 71% of our GMS was denominated in U.S. dollars.

Any events causing significant disruption or distraction to the public or to our workforce, or impacting overall macroeconomic conditions, such as natural disasters and other adverse weather and climate conditions, public health crises, supply chain disruptions, political instability or crises, terrorist attacks, war, social unrest, or other unexpected events, could disrupt our operations, internet, or mobile networks, or the operations of one or more of our third-party service providers. These events may also impact buyer demand for discretionary goods, impact sellers' ability to run their businesses on our marketplaces and ship their goods, and impact our ability to execute on our strategy, any of which could negatively impact our business and financial performance.

The global scope of our business subjects us to risks associated with operations abroad.

Doing business outside of the United States subjects us to increased risks and burdens such as:

- complying with different (and sometimes conflicting) laws and regulatory standards (particularly including those related to the use and disclosure of personal information, online payments and money transmission, intellectual property, product liability, consumer protection, online platform liability, e-commerce marketplace regulation, labor and employment laws, business practices, including those related to the environment, and taxation of income, goods, and services) sometimes with attempts to apply these laws and regulatory standards extra-territorially;
- defending our marketplaces against international litigation, including in jurisdictions that may not offer judicial norms or protections similar to those found in the United States;
- conforming to local business or cultural norms;

- barriers to international trade, such as tariffs, customs, or other taxes, or, when applicable, cross-border limits placed on U.S. technology companies;
- uncertainties on the continuing impact of pandemic-related quarantines, closures, delayed or shut down delivery services, supply chain delays, and movement restrictions on operations, and geopolitical events such as natural disasters, pandemics, terrorism, and acts of war;
- varying levels of internet, e-commerce, and mobile technology adoption and infrastructure;
- potentially heightened risk of fraudulent or other illegal transactions;
- limitations on the repatriation of funds;
- exposure to liabilities under anti-corruption, anti-money laundering and export control laws, including the U.S. Foreign Corrupt Practices Act of 1977, as amended (the “FCPA”), the U.K. Bribery Act of 2010, trade controls and sanctions administered by the U.S. Office of Foreign Assets Control of the U.S. Treasury Department, and similar laws and regulations in other jurisdictions;
- our ability to enforce contracts, our terms of use and policies, and intellectual property rights in jurisdictions outside the United States;
- fluctuations of foreign exchange rates; and
- uncertainties and instability in U.K. and E.U. markets caused by ongoing negotiations of cross-border service agreements triggered by Brexit.

Our sellers face similar risks in conducting their businesses across borders. Even if we are successful in managing the risks of conducting our business across borders, if our sellers are not, our business could be adversely affected.

Our ability to recruit and retain a diverse group of employees and retain key employees is important to our success. Significant attrition or turnover could impact our ability to grow our business.

Our ability to attract, retain, and motivate a diverse group of employees, including our management team, is important to our success. We strive to attract, retain, and motivate our employees, from our office administrators to our engineers, to our management team, who share our dedication to our communities and our mission to “Keep Commerce Human.” We cannot guarantee we will continue to attract and retain the number or caliber of employees we need to maintain our competitive position, particularly in the uncertainty of the current macroeconomic environment. We may not meet our impact goal of building a diverse and inclusive workforce that is broadly representative of our communities.

Some of the challenges we face in attracting and retaining employees include:

- skepticism regarding our ability to accelerate GMS growth in the future;
- continuing ability to offer competitive compensation and benefits, including continuing to support the well-being of our employees, as the legal landscape in the United States evolves;
- competition for talent in our industry, which could cause payroll costs, including stock-based compensation, to become a larger percentage of our total cost base;
- evolving expectations regarding the ability to work remotely;
- enhancing engagement levels among existing employees and supporting their work-life balance;
- attracting high quality talent in a timely fashion;
- retaining qualified employees who support our mission and guiding principles, and continuing to do so in our hybrid work environment;
- continuing to find promotion opportunities to retain key employees for leadership positions;
- hiring employees in multiple locations globally, and building a diverse, equitable, and inclusive workforce; and
- responding to competitive pressures and changing business conditions in ways that do not divert us from our guiding principles.

Filling key strategic roles, including engineering and product management, can be challenging at times, particularly for more specialized positions. Qualified individuals may be limited and in high demand, and we may incur significant costs to attract, develop, retain and motivate them. Even if we were to offer higher compensation and other benefits, people with suitable technical skills may choose not to join us or to continue to work for us. In addition, job candidates and existing employees often consider the value of the stock awards they receive in connection with their employment. The value of our stock awards in a volatile macroeconomic environment may adversely affect our ability to recruit and retain highly skilled employees.

We operate in a hybrid work model in which more than half of our workforce is fully remote while others have returned to our offices with a flexible schedule. It is possible that these arrangements could have a negative impact on our workplace culture and on the execution of our business plans and operations. If our needs are not aligned with our employees' preferences, or if we are unsuccessful in optimizing our hybrid work environment, it may adversely affect our ability to recruit and retain employees. If we continue to operate with a significant portion of our employees located outside of our offices, and we are unable to adapt to new hybrid work modes, it could negatively impact our company culture.

In general, our employees, including our management team, work for us on an at-will basis. The unexpected loss of or failure to retain one or more of our key employees, such as our Chief Executive Officer, Chief Financial Officer, or Chief Technology Officer, or unsuccessful succession planning, could adversely affect our business. Further, if members of our management and other key personnel in critical functions across our organization are unable to perform their duties, we may not be able to execute on our business strategy and/or our operations may be negatively impacted. Other companies, including our competitors, may be successful in recruiting and hiring our employees, and it may be difficult for us to find suitable replacements on a timely basis or on competitive terms.

If we experience increased voluntary attrition in the future, and/or if we are unable to attract and retain qualified employees in a timely fashion or on reasonable terms, particularly in critical areas of operations such as engineering, we may not achieve our strategic goals and our business and operations could be harmed.

We may be unable to adequately protect our intellectual property.

Our intellectual property is an essential asset of our business. To establish and protect our intellectual property rights, we rely on a combination of copyright, trademark, and patent laws, as well as confidentiality procedures and contractual provisions. We also rely on trade secret protection for parts of our technology and intellectual property. The efforts we have taken to protect our intellectual property may not be sufficient or effective. We generally do not elect to register our copyrights, relying instead on the laws protecting unregistered intellectual property, which may not be sufficient. We rely on both registered and unregistered trademarks, which may not always be comprehensive in scope. In addition, our copyrights and trademarks, whether or not registered, and patents may be held invalid or unenforceable if challenged, and may be of limited territorial reach. While we have obtained or applied for patent protection with respect to some of our intellectual property, patent filings may not be adequate alone to protect our intellectual property, and may not be sufficiently broad to protect our proprietary technologies. Additionally, it is expensive to maintain these rights, both in terms of application and maintenance costs, and the time and cost required to defend such rights, if necessary, could be substantial. From time to time we acquire intellectual property from third parties, but these acquired assets, like our internally developed intellectual property, may lapse, be abandoned, be challenged or circumvented by others, be held invalid, be unenforceable, or may otherwise not be effective in protecting our platforms.

In addition, we may not be effective in policing unauthorized use of our intellectual property and authorized uses may not have the intended effect. Even when we do detect violations, enforcement of our rights may require us to engage in litigation, use of takedowns and similar procedures, or licensing to enforce our intellectual property rights. Any enforcement efforts we undertake, including litigation, could be time-consuming and expensive and could divert our management's attention. In addition, our efforts may be met with defenses and counterclaims challenging the validity and enforceability of our intellectual property rights or may result in a court determining that our intellectual property rights are unenforceable.

We attempt to protect our intellectual property and confidential information in part through confidentiality, non-disclosure, and invention assignment agreements with employees, advisors, service providers and other third parties who develop intellectual property on our behalf, or with whom we share information. However, we cannot guarantee that we have entered into such agreements with each party that has developed intellectual property on our behalf or that has or may have had access to our confidential information, trade secrets and other intellectual property. These agreements may also be breached, or may not effectively prevent unauthorized use, disclosure, or misappropriation of our confidential information or intellectual property. Moreover, these agreements may not provide an adequate remedy for breaches or in the event of unauthorized use or disclosure of our confidential information or infringement of our intellectual property. The legal framework surrounding protection of intellectual property changes frequently throughout the world, particularly as to technologies used in e-commerce, and these changes may impact our ability to protect our intellectual property and defend against third-party claims. If we are unable to cost-effectively protect our intellectual property rights, our business could be harmed.

We may experience fluctuations in our tax obligations and effective tax rate.

We are subject to a variety of tax and tax collection obligations in the United States and in numerous other foreign jurisdictions. We record tax expense, including indirect taxes, based on current tax payments and our estimates of future tax payments, which may include reserves for estimates of probable or likely settlements of tax audits. We may recognize additional tax expense and be subject to additional tax liabilities, including tax collection obligations, due to changes in tax law, regulations, administrative practices, principles, and interpretations related to tax, including changes to the global tax framework, competition, and other laws and accounting rules in various jurisdictions. Such changes could come about as a result of economic, political, and other conditions. An increasing number of jurisdictions are considering or have adopted laws or administrative practices that impose new tax measures, including revenue-based taxes, such as digital services taxes or online sales taxes, targeting online commerce and the remote selling of goods and services. These include new obligations to withhold or collect sales, consumption, value added, or other taxes on online marketplaces and remote sellers, or other requirements that may result in liability for third-party obligations. For example, non-U.S. jurisdictions have proposed or enacted taxes on online advertising and marketplace service revenues. Proliferation of these or similar unilateral tax measures may continue unless broader international tax reform is implemented. Our effective tax rate, results of operations and cash flows could be materially and adversely affected by additional taxes imposed on us prospectively or retroactively. We may also be subject to increased requirements for marketplaces to report, collect, remit, and hold liability for their customers' direct and indirect tax obligations, as a result of changes to regulations, administrative practices, outcomes of court cases, and changes to the global tax framework.

On August 16, 2022 President Joseph R. Biden signed into law the Inflation Reduction Act of 2022 ("IRA"). The IRA includes a 15% corporate alternative minimum tax for companies with modified GAAP net income in excess of \$1 billion, a 1% excise tax on certain stock repurchases, and numerous environmental and green energy tax credits. Currently, we are not subject to the corporate alternative minimum tax. We do not currently expect the new law to have a material impact on our results of operations.

Our effective tax rate and cash taxes paid in a given financial statement period may be adversely impacted by results of our business operations including changes in the mix of revenue among different jurisdictions, acquisitions, investments, entry into new geographies, the relative amount of foreign earnings, changes in foreign currency exchanges rates, changes in our stock price, intercompany transactions, changes to accounting rules, expectation of future profits, changes in our deferred tax assets and liabilities and our assessment of their realizability, and changes to our ownership or capital structure. Fluctuations in our tax obligations and effective tax rate could adversely affect our business.

In the ordinary course of our business, there are numerous transactions and calculations for which the ultimate tax determination is uncertain. Although we believe that our tax positions and related provisions reflected in the financial statements are fully supportable, we recognize that these tax positions and related provisions may be challenged by various tax authorities. These tax positions and related provisions are reviewed on an ongoing basis and are adjusted as additional facts and information become available, including progress on tax audits, changes in interpretation of tax laws, developments in case law, and closing of statute of limitations. To the extent that the ultimate results differ from our original or adjusted estimates, our effective tax rate can be adversely affected.

The provision for income taxes involves a significant amount of management judgment regarding interpretation of relevant facts and laws in the jurisdictions in which we operate. Future changes in applicable laws, projected levels of taxable income and tax planning could change the effective tax rate and tax balances recorded by us. In addition, tax authorities periodically review income tax returns filed by us and raise issues regarding filing positions, timing and amount of income and deductions, and the allocation of income among the jurisdictions in which we operate. A significant period of time may elapse between the filing of an income tax return and the ultimate resolution of an issue raised by a revenue authority with respect to that return. Any adjustments as a result of any examination may result in additional taxes or penalties against us. If the ultimate result of these audits differs from original or adjusted estimates, they could have a material impact on our effective tax rate and tax liabilities.

At any one time, multiple tax years could be subject to audit by various taxing jurisdictions. As a result, we could be subject to higher than anticipated tax liabilities as well as ongoing variability in our quarterly tax rates as audits close and exposures are re-evaluated.

The terms of our debt instruments may restrict our ability to pursue our business strategies.

We do not currently have any obligations outstanding under our credit facility. While the indentures governing our outstanding convertible notes do not include material restrictions on our ability to pursue our business strategy, our credit facility requires us to comply with, and future debt instruments may require us to comply with, various covenants that limit our ability to take actions such as: disposing of assets; completing mergers or acquisitions; incurring additional indebtedness; encumbering our properties or assets; paying dividends, making other distributions or repurchasing our common stock; making specified investments; and engaging in transactions with our affiliates.

These restrictions could limit our ability to pursue our business strategies. If we default under our credit facility and if the default is not cured or waived, the lenders could terminate their commitments to lend to us and cause any amounts outstanding to be payable immediately. Such a default could also result in cross defaults under other debt instruments. Moreover, any such default would limit our ability to obtain additional financing, which may have an adverse effect on our cash flow and liquidity.

Our insurance may not cover or mitigate all the risks facing our business.

While we have insurance coverage for many aspects of our business risk, this insurance coverage may be incomplete or inadequate, or in some cases may not be available. Our business has evolving risks that may be unpredictable. For certain risks we face, we may be required to, or may elect to, self-insure or rely on insurance held by third parties, legal defenses and immunities, indemnification agreements or limits on liability, which may be insufficient.

For example, we may not have adequate insurance coverage related to the actions of sellers on our platforms. In evolving areas such as platform products liability, court decisions such as *McMillan v. Amazon* in Texas, and *Loomis v. Amazon* and *Bolger v. Amazon* in California, suggest that different jurisdictions may take differing positions on the scope of e-commerce platform liability for seller products. In some circumstances, a platform might be held liable for violations of applicable legal regimes by sellers and their products, such as intellectual property laws, privacy and security laws, product regulation, or consumer protection laws. Court decisions and regulatory changes in these areas may shift quickly, both in the United States and worldwide, and our insurance may be inadequate or unavailable to protect us from existing or newly developing legal risks.

Finally, while some sellers on our platforms may be insured for some or all of these risks, many small businesses do not carry any or sufficient insurance, and, even if a seller is insured, the insurance may not cover the relevant loss.

These factors may lead to increased costs for insurance, our increased liability, increased liability or requirements on sellers on our platforms, changes to our marketplaces or business model, or other damage to our brands and reputation.

Strategic Risks Related to Our Business and Industry

We face intense competition and may not be able to compete effectively.

Operating e-commerce marketplaces is highly competitive and we expect competition to increase in the future. We face competition from a wide range of online and offline competitors. We compete for sellers with marketplaces, retailers, social media commerce, and companies that sell software and services to small businesses. For example, in addition to listing her goods for sale on the Etsy marketplace, a seller can list her goods with online retailers, such as Amazon, eBay, Google, or Alibaba, or sell her goods through local consignment and vintage stores and other venues or marketplaces, including through commerce channels on social networks like Facebook, Instagram, and TikTok. She may also sell wholesale directly to traditional retailers, including large national retailers, who discover her goods in our marketplaces or otherwise.

We similarly compete for sellers on our other marketplaces, Depop, Reverb, and Elo7. Sellers may list their goods with online retailers such as eBay, Vinted, ThredUp, Poshmark, and The RealReal, in the case of Depop, Sweetwater, in the case of Reverb, or MercadoLibre, in the case of Elo7, among others, or sell through other venues, marketplaces, retailers, or commerce channels. Depop also competes with vendors of new and secondhand items, including traditional brick-and-mortar consignment and thrift stores, branded goods stores, department stores, and specialty retailers.

We also compete with companies that sell software and services to small businesses, enabling a seller to sell from her own website or otherwise run her business independently of our platforms, or enabling her to sell through multiple channels, such as BigCommerce, Wix, and Shopify.

We compete to attract, engage, and retain sellers based on many factors, including:

- the value and awareness of our brands;
- the effectiveness of our product and marketing investments;
- the effectiveness of our scaled member support and trust and safety practices and policies;
- the global scale of our marketplaces and the breadth of our online presence;
- our tools, education, and services, which support a seller in running her business;
- the number and engagement of buyers;
- our policies and fees;
- the ability of a seller to scale her business;
- the effectiveness of our mobile apps;
- the strength of our communities; and
- our mission.

In addition, we compete with retailers for the attention of buyers. A buyer has the choice of shopping with any online or offline retailer, including large e-commerce marketplaces, such as Amazon, eBay, or Alibaba, national retail chains, such as West Elm, Walmart, or Target, local consignment and vintage stores, social commerce channels like Instagram or Facebook, event-driven platforms and vertical experiences like Zola and Wayfair, resale commerce and streaming video commerce sites and apps, and other venues or marketplaces. Many of these competitors offer low-cost or free shipping, fast shipping times, favorable return policies, and other features that may be difficult or impossible for our sellers to match. Competition also intensified as buyers returned to traditional brick-and-mortar retail stores, and it is difficult to predict what lasting effects the COVID-19 pandemic will have on consumer spending patterns and e-commerce generally.

We compete to attract, engage, and retain buyers based on many factors, including:

- the breadth and quality of items that sellers list in our marketplaces;
- the ease of finding items;
- the value and awareness of our brands;
- the effectiveness of our marketing;
- the person-to-person commerce experience;
- customer service;
- our reputation for trustworthiness;
- the effectiveness of our mobile apps;
- the availability of timely, fair, and free shipping offered by sellers to buyers;
- ease of payment;
- localization and experiences targeted based on regional preferences, and
- the availability and reliability of our platforms.

Many of our competitors and potential competitors have longer operating histories, greater resources, better name recognition, or more customers than we do. They may invest more to develop and promote their services than we do, and they may offer lower fees to sellers than we do. Large, widely adopted platforms may benefit from significant user bases, access to user or industry-wide data, the ability to unilaterally set policies and standards, and control over complementary services such as fulfillment, advertising or on-platform apps or e-commerce transactions. To the extent Etsy and our sellers may rely on these competitors' services, such services may be integrated into site functionality, and these competitors may have access to substantial data about Etsy and its communities of buyers and sellers. As a result, they may have the ability to reduce our ability to service our users, reduce our ability to obtain analytics or information to optimize advertising or intentionally seek to disintermediate Etsy.

Local companies or more established companies based in markets where we operate outside of the United States may also have a better understanding of local customs, providing them a competitive advantage. For example, in certain markets outside the United States, we compete with smaller, but similar, local online marketplaces with a focus on unique goods that are attempting to attract sellers and buyers in those markets.

If we are unable to compete successfully, or if competing successfully requires us to expend significant resources in response to our competitors' actions, our business and results of operations could be adversely affected.

If we are unable to successfully execute on our business strategy or if our strategy proves to be ineffective, our business, financial performance, and growth could be adversely affected.

Our ability to execute our strategy is dependent on a number of factors, including the ability of our senior management team and key team leaders to execute the strategy, our ability to iterate in a rapidly evolving e-commerce landscape, maintain our pace of product experiments coupled with the success of such initiatives, our ability to meet the changing needs of our sellers and buyers, and the ability of our employees to perform at a high level. If we are unable to execute our strategy, if our strategy does not drive the growth that we anticipate, if the public perception is that we are not executing on our strategy, or if our market opportunity is not as large as we have estimated, it could adversely affect our business, financial performance, and growth.

If we are not able to keep pace with technological changes and enhance our current offerings and develop new offerings to respond to the changing needs of sellers and buyers, our business, financial performance, and growth may be harmed.

Our industry is characterized by rapidly changing technology, new service and product introductions, and changing customer demands and preferences, and we are not able to predict the effect of these changes on our business. The technologies that we currently use to support our platforms may become inadequate or obsolete, and the cost of incorporating new technologies into our products and services may be substantial. Our sellers and buyers, however, may not be satisfied with our enhancements or new offerings or may perceive that these offerings do not respond to their needs or create value for them. Additionally, as we invest in and experiment with new offerings or changes to our platforms, our sellers and buyers may find these changes to be disruptive and may perceive them negatively. In addition, developing new services and features is complex, and the timetable for public launch is difficult to predict and may vary from our historical experience. As a result, the introduction of new offerings may occur after anticipated release dates, or they may be introduced as pilot programs, which may not be continued for various reasons. In addition, new offerings may not be successful due to defects or errors, negative publicity, or our failure to market them effectively.

New offerings may not drive GMS or revenue growth, may require substantial investment and planning, and may bring us more directly into competition with companies that are better established or have greater resources than we do.

If we do not continue to cost-effectively develop new offerings that satisfy sellers and buyers, then our competitive position and growth prospects may be harmed. In addition, new offerings may not drive the GMS or revenue that we anticipate, may have lower margins than we anticipate or than existing offerings, and our revenue from the new offerings may not be enough to offset the cost of developing and maintaining them, which could adversely affect our business, financial performance, and growth.

Continuing to expand our operations outside of the United States is part of our strategy, and the growth of our business could be harmed if our expansion efforts do not succeed.

We are focused on growing our business both inside and outside of the United States. Although we have a significant number of sellers and buyers outside of the United States, we are a U.S.-based company with less experience developing local markets internationally and may not execute our strategy successfully. Operating outside of the United States also requires significant management attention, including managing operations and people over diverse geographic areas with varying cultural norms and customs, and adapting our platforms and business operations to local markets.

Our ability to grow our international operations may also be adversely affected by any circumstances that reduce or hinder cross-border trade. For example, the shipping of goods cross-border is typically more expensive and slower than domestic shipping and often involves complex customs and duty inspections and the dependency of national postal carrier systems. If jurisdictions become increasingly fragmented, with additional regulation of small sellers and platforms, tariffs, certifications, representative requirements, and customs requirements that increase the cost or complexity of cross-border trade, whether on the seller's sourcing of materials or between the seller and buyer, our business could be adversely impacted. In addition, our international growth strategy may be adversely affected by the extent to which the COVID-19 pandemic outside the United States results in further quarantines, closures, delayed or terminated delivery services, and movement restriction.

Our success outside the United States also depends upon our ability to attract sellers and buyers from the same countries in order to enable the growth of local markets. An inability to develop our communities globally or to otherwise grow our business outside of the United States in a cost-effective manner could adversely affect our GMS, revenue, and operating results.

Competition is also likely to intensify outside of the United States, both where we operate now and where we plan to expand. Local companies based outside the United States may have a substantial competitive advantage because of their greater understanding of, and focus on, their local markets, along with regulations that may favor local companies. Some of our competitors may also be able to develop and grow internationally more quickly than we will.

Despite our execution efforts, the goods that sellers list on our Etsy and Reverb marketplaces may not appeal to non-U.S. consumers in the same way as they do to consumers in the United States. In addition, non-U.S. buyers are not as familiar with the Etsy and Reverb brands as buyers in the United States and may not perceive us as relevant or trustworthy. Also, visits to our Etsy and Reverb marketplaces from buyers outside the United States may not convert into sales as often as visits from within the United States, including due to the impact of a strong U.S. dollar relative to other currencies and the fact that most of the goods listed on these platforms are denominated in U.S. dollars. Similarly, non-U.K. consumers may be less familiar with Depop, or find the listed items less appealing, than consumers in the United Kingdom, and non-Brazilian consumers may be less familiar with Elo7, or find the listed items less appealing, than consumers in Brazil, which may make it challenging to expand into new markets.

Continuing international expansion may also require significant financial investment. For example, Etsy is investing in growth opportunities in India, a dynamic market where we have limited operating experience, and acquired Elo7 in 2021 which extends Etsy's reach in Latin America. To facilitate continued international expansion, we plan to continue investing in seller and buyer acquisition marketing, enhancing our machine translation and machine learning to help sellers and buyers connect even if they

do not speak the same language, forming relationships with third-party service providers, supporting operations in multiple countries, and potentially acquiring additional companies based outside the United States and integrating those companies with our operations. Our investment outside of the United States may be more costly than we expect or unsuccessful.

We continue to integrate Depop and Elo7 and may experience difficulty in realizing the expected benefits of the acquisitions.

We continue to integrate Depop and Elo7 and may continue to incur significant expenses as we invest to grow their businesses and implement compliance policies and procedures. We expect that our acquisitions of Depop and Elo7 will continue to require significant attention and resources from our management team and workforce, including our technology, operations, accounting, and human resource units. Devoting resources to the integration of Depop and Elo7 means that these resources will be redeployed to varying degrees from their normal day-to-day activities supporting existing Etsy functions. Additionally, integrating Depop and Elo7 and may prove to be costlier and take longer than we anticipate, which may ultimately reduce or eliminate the benefits to Etsy of the acquisitions.

Also, the success of Depop and Elo7 will depend, in part, on our ability to apply Etsy's technological, marketing, and operational expertise to help scale their growth in a profitable, efficient, and effective manner, including maintaining relationships with their respective sellers, buyers, and third-party service providers. Because our business and the Depop and Elo7 businesses differ in certain respects, we may not be able to manage these businesses smoothly or successfully and may experience difficulty in realizing the expected benefits of the acquisitions.

If we are unable to successfully integrate Depop and Elo7 into our "House of Brands" strategy, we may be unable to realize the benefits we expect to achieve as a result of these acquisitions. As a result, our business, growth and/or results of operations could be adversely affected.

We have incurred impairment charges for our goodwill and may incur further impairment charges for our goodwill and other intangible assets, which would negatively impact our operating results.

In the quarter ended September 30, 2022, we recorded non-cash impairment charges of \$897.9 million and \$147.1 million to write-off goodwill in full for the Depop and Elo7 reporting units, respectively. These impairment charge amounts were recorded to Goodwill Impairment and had a material adverse effect on our balance sheet and results of operations. After the recognition of such impairment charges, there were no balances of goodwill remaining from our acquisitions of Depop and Elo7, on July 12, 2021 and July 2, 2021, respectively. We review goodwill for impairment at least annually in the fourth quarter of the year or more frequently if indicators of impairment arise, and should the Macroeconomic Conditions continue to deteriorate, including a rise in the risk-free long-term interest rates, or a decline in our results of operations, the result of such review may indicate a decline in the fair value of goodwill requiring additional impairment charges for reporting units other than Depop and Elo7. In the event we are required to record an additional non-cash impairment charge to our goodwill, other intangibles, and/or long-lived assets, such a non-cash charge could have a material adverse effect on our consolidated statements of operations and balance sheets in the reporting period in which we record the charge. For additional information, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates—Valuation of Goodwill" of our Annual Report.

We may expand our business through additional acquisitions of other businesses or assets or strategic partnerships and investments, which may divert management's attention and/or prove to be unsuccessful.

We have acquired businesses in the past and may acquire additional businesses or technologies, or enter into strategic partnerships, in the future. We may not realize the anticipated benefits of our acquisitions or any partnerships, and possible future acquisitions or relationships may disrupt our business and divert management's time and attention.

In addition, integrating an acquired business or technology is risky. Any acquisitions or partnerships may result in unforeseen operational difficulties and expenditures associated with:

- integrating new businesses and technologies into our infrastructure;
- clearing any required regulatory review that may be complex, costly, time consuming, or place additional requirements on the business;
- implementing growth initiatives;
- integrating administrative functions;
- hiring, retaining, and integrating key employees;
- supporting and enhancing morale and culture;

- retaining key customers, merchants, vendors, and other key business partners;
- maintaining or developing controls, procedures, and policies (including effective internal control over financial reporting and disclosure controls and procedures, as well as information privacy controls); and
- assuming liabilities related to the activities of the acquired business before and after the acquisition, including liabilities for violations of laws and regulations, intellectual property infringement, commercial disputes, cyber attacks, taxes, and other matters.

We also may issue additional equity securities in connection with an acquisition or partnership, which could cause dilution to our stockholders. Finally, acquisitions or partnerships could be viewed negatively by analysts, investors, or the members of our communities.

Our marketing efforts to help grow our business may not be effective.

Maintaining and promoting awareness of our marketplaces and services is important to our ability to attract and retain sellers and buyers. One of the key parts of our strategy for the Etsy marketplace is to bring new buyers to the marketplace and create more habitual buyers by inspiring more frequent purchases across multiple categories and purchase occasions. We continue to iterate on and invest in our marketing strategies for each of our marketplaces, which may not succeed for a variety of reasons, including our inability to execute and implement our plans.

Our performance marketing efforts currently include search engine optimization, search engine marketing, affiliate marketing, and display advertising, as well as social media, mobile push notifications, and email marketing. If we fail to scale and deliver an effective return on investment in any of these marketing efforts, it may harm our business. We also engage with celebrities and influencers as part of our marketing efforts, and our perceived affiliation with these individuals could cause us brand or reputational damage in the event they undertake actions inconsistent with our brands and values.

Additionally, we invest significantly in brand advertising via channels such as television and digital video advertising. If we do not produce effective content or purchase effective air time and placement for that content, it could fail to deliver a return on our investment, and damage our brands and/or business. Many of our marketing efforts include our sellers and products from their shops selected via automated systems. These automated systems may not always operate effectively. While both our manual and automated systems have tools and procedures designed to account for our and our partners' policies, despite our best efforts, we may inadvertently include in our marketing efforts sellers or their products inconsistent with our policies, brands, and values, which could result in failure to deliver a return on our investment, media or regulatory scrutiny, and damage to our brands and/or business.

We obtain a significant number of visits via search engines such as Google. Search engines frequently change the algorithms that determine the ranking and display of results of a user's search, alter analytics or search engine optimization data available to us or make other changes to the way results are displayed, which can negatively affect the placement of links to our marketplaces and reduce the number of visits or otherwise negatively impact our marketing efforts.

We also obtain a significant number of visits from social media platforms such as Facebook, Instagram, and Pinterest. Search engines, social networks, and other third parties typically require compliance with their policies and procedures, which may be subject to change or new interpretation with limited ability to negotiate, which could negatively impact our marketing capabilities (including marketing services for our sellers), GMS, and revenue. Etsy-provided controls for users to limit third-party advertising features, the growing use of online ad-blocking software and technological changes to browsers and mobile operating systems that, for example, limit access to usage information for smaller platforms like Etsy, impact the effectiveness of, or our visibility and insights into, our marketing efforts. As a result, we may fail to bring more buyers, or fail to increase frequency of visits to our platforms. In addition, ongoing legal and regulatory changes in the data privacy, social media and technology spheres in U.S. states and countries throughout the world – and the interpretation of these laws by major search, social, and operating system providers – may impact the scope and effectiveness of marketing and advertising services generally, including those used on our platforms.

We also obtain a significant number of visits through email marketing. If we are unable to successfully deliver emails to our sellers and buyers, if our email subscription tools do not function correctly, or if our sellers and buyers do not open our emails, whether by choice, because those emails are marked as low priority or spam, or for other reasons, our business could be adversely affected. As e-commerce, search, and social networking, as well as related regulatory regimes, evolve, we must continue to evolve our marketing tactics and technology accordingly and, if we are unable to do so, our business could be adversely affected.

Some providers of consumer devices, mobile or desktop operating systems, and web browsers have implemented, or have announced plans to implement, ways to block tracking technologies which, if widely adopted, could also result in online tracking methods becoming significantly less effective. Similarly, our vendors, particularly those providing advertising and analytics products and services have, and may continue to, modify their products and services based on legal and technical changes relating to privacy in ways that could reduce the efficiency of our marketing efforts and our access to data about use of our platforms. Any reduction in our ability to make effective use of such technologies could harm our ability to personalize the

experience of buyers, increase our costs, and limit our ability to attract and retain our sellers and buyers on cost-effective terms. As a result, our business and results of operations could be adversely affected.

Enforcement of our marketplace policies may negatively impact our brands, reputation, and/or our financial performance.

We maintain and enforce policies that outline expectations for users while they engage with our services, whether as a seller, a buyer, or a third-party and are implementing and enforcing similar policies at Reverb, Depop, and Elo7 as we integrate them into our marketplace policy program. Additionally, we prohibit a range of items on our marketplaces, including (but not limited to): drugs, alcohol, tobacco, weapons, endangered animal products, hazardous materials, recalled items or those that create an unreasonable risk of harm, highly-regulated items, items violating intellectual property rights of others, illegal products, pornography, items from federally-sanctioned jurisdictions, hateful content, and items that promote or glorify violence.

We enforce these policies in order to uphold the safety and integrity of our marketplaces, engender trust in the use of our services, and encourage positive connections among members of our communities. We strive to enforce these policies in a consistent and principled manner that is transparent and explicable to stakeholders. However, even with a principled and objective approach, policy enforcement is a combination of human and technological review. As a result, there could be errors, policy enforcement could be subject to different, inconsistent, or conflicting regional consensus or regulatory standards in different jurisdictions, or it could be perceived to be arbitrary, unclear, or inconsistent. Similarly, the tools and processes in place at Reverb, Depop, and Elo7 are not as sophisticated or mature as those used by the Etsy marketplace. Shortcomings and errors in our ability to enforce our policies across our marketplaces could lead to negative public perception, distrust from our members, or lack of confidence in the use of our services, and could negatively impact the reputation of our brands. In particular, certain enforcement decisions, even those we deem necessary for the health and safety of our marketplaces, may be received negatively by stakeholders or the public, such as:

- we may choose to limit or prohibit the sale of items in our marketplaces based on our policies, even though we could benefit financially from the sale of those items;
- from time to time, we may revise our policies in ways that we believe will enhance trust in our platforms, even though the changes may be perceived unfavorably, such as updates to the way we define handmade.

We are subject to risks related to our environmental, social, and governance activities and disclosures.

Our Impact strategy focuses on Etsy's mission to "keep commerce human" and the positive impact we want our business to have. We are committed to growing sustainably by aligning our mission and business strategy to help create economic impact through entrepreneurship. We have also announced a number of goals and initiatives and elected to publicly report on a significant number of environmental and social metrics that we monitor (our "ESG metrics") and include them in our Annual Report. As a result, our business may face heightened scrutiny for these activities. For more information see Part I, Item I, "Business—ESG Reporting: Our Impact Goals, Strategy and Progress" of our Annual Report. While selected metrics receive limited assurance from an independent third-party, this is inherently a less rigorous process than reasonable assurance sought in connection with a financial statement audit and such review process may not identify errors and may not protect us from potential liability under the securities laws. In addition, for some of the metrics we report, the methodology of computation and/or the scope of our value chain assessed continues to evolve from year to year. As a result, period over period comparisons may not be meaningful.

The implementation of our Impact strategy, including our Impact investing strategy and other initiatives intended to help us meet our Impact goals, requires considerable investments, and our goals, with all of their contingencies, dependencies, and in certain cases, reliance on third-party verification and/or performance, are complex and ambitious, and we cannot guarantee that we will achieve them. If we do not demonstrate progress against our Impact strategy or if our Impact strategy is not perceived to be adequate or appropriate, our reputation could be harmed. We could also damage our reputation and the value of our brands if we or our vendors fail to act responsibly in the areas in which we report, or we fail to demonstrate that our commitment to our Impact strategy enhances our overall financial performance.

Further, we purchase verified emissions reductions ("VERs") and use renewable energy credits ("RECs"), including RECs arising from a 15 year virtual power purchase agreement expiring in 2034, to help balance our carbon and energy footprints. If the cost of VERs were to materially increase or we were required to purchase a significant number of additional VERs or RECs, our cost to obtain these offsets and/or credits could increase materially which could impact our ability to meet our public goals or our financial performance.

Additionally, there can be no assurance that our current programs, reporting frameworks, and principles will be in compliance with any new environmental and social laws and regulations that may be promulgated in the United States and elsewhere, and the costs of changing any of our current practices to comply with any new legal and regulatory requirements in the United States and elsewhere may be substantial. Furthermore, industry and market practices may further develop to become even more robust than what is required under any new laws and regulations, and we may have to expend significant efforts and resources to keep up with market trends and stay competitive among our peers.

While most of the new laws being introduced are designed to promote more robust transparency and enhance resiliency, which can create the conditions for us to meet our Impact goals, laws have also been introduced in the United States that are designed to limit or restrict company activities on environmental and social issues. If such laws are successfully passed in the United States or elsewhere, or resistance to ESG initiatives grows, our Impact strategy and ESG metrics may subject us to heightened scrutiny or reputational damage.

Any harm to our reputation resulting from setting these metrics or our failure or perceived failure to meet such metrics could impact employee engagement and retention, the willingness of our buyers and sellers and our partners and vendors to do business with us, or investors' willingness to purchase or hold shares of our common stock, any of which could adversely affect our business, financial performance, and growth.

We may need additional capital, which may not be available to us on acceptable terms or at all.

We believe that our existing cash and cash equivalents and short- and long-term investments, together with cash generated from operations, will be sufficient to meet our anticipated operating cash needs for at least the next 12 months. However, we may require additional cash resources due to changes in business conditions or other developments, such as acquisitions or investments we may decide to pursue. We may seek to borrow funds under our credit facility or sell additional equity or debt securities. The sale of additional equity or convertible debt securities could result in dilution to our existing stockholders. Any debt financing that we may secure in the future could result in additional operating and financial covenants that would limit or restrict our ability to take certain actions, such as incurring additional debt, making capital expenditures, repurchasing our stock, or declaring dividends. It is also possible that financing may not be available to us in amounts or on terms acceptable to us, if at all. Weakness and volatility in capital markets and the economy in general could limit our access to capital markets and increase our costs of borrowing.

In addition, a significant portion of our cash and cash equivalents and short-term investments are invested in U.S. Government securities. In January 2023, the U.S. Treasury Department indicated that the U.S. debt limit had been reached and that it had begun taking "extraordinary measures" to avoid default. Absent action to raise the statutory ceiling, the U.S. Treasury expects to exhaust those measures by early June 2023. Any default by the U.S. Government on all or a material portion of our investments in U.S. Treasury securities could create significant uncertainty and potentially negatively impact our liquidity.

We have a significant amount of debt and may incur additional debt in the future. We may not have sufficient cash flow from our business to pay our substantial debt when due.

Our ability to pay our debt when due or to refinance our outstanding indebtedness, including the 0.125% Convertible Senior Notes due 2026 we issued in September 2019 (the "2019 Notes"), the 0.125% Convertible Senior Notes due 2027 we issued in August 2020 (the "2020 Notes"), and the 0.25% Convertible Senior Notes due 2028 we issued in June 2021 (the "2021 Notes" and together with the 2019 Notes and the 2020 Notes, the "Notes"), depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. While we used a portion of the net proceeds from each of the Notes offerings to enter into separate privately negotiated capped call instruments designed to reduce the potential dilution and/or offset a portion of the cash payments due in respect of the Notes, there can be no assurance that the capped call instruments will pay out in full or at all. If we are unable to generate the cash flow necessary to pay our debts when due, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt, or obtaining additional equity capital on terms that may be onerous or highly dilutive. In addition, any required repurchase of the Notes for cash as a result of a fundamental change would lower our current cash on hand such that we would not have those funds available for use in our business or could require us to obtain additional financing to fund the repurchase. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. For example, the Federal Reserve increased its benchmark interest rate multiple times in 2022 and has continued to do so in 2023 in a bid to reduce rising inflation rates in the United States, and it is expected that additional rate hikes may be adopted in the future. These interest rate increases have resulted in higher short-term and long-term borrowing costs and could impact the general availability of credit. Higher prevailing interest rates and/or a tightening supply of credit may adversely affect the terms upon which we will be able to refinance our indebtedness, if at all. As a result, we may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations. Based on the daily closing prices of our stock during the quarter ended March 31, 2023, holders of the 2021 Notes, 2020 Notes, and 2019 Notes, are not eligible to convert their 2021 Notes, 2020 Notes, and remaining 2019 Notes, respectively, during the second quarter of 2023. See Part I, Item 1, "Notes to Condensed Consolidated Financial Statements—Note 7—Debt" for more information on the Notes.

In addition, we and our subsidiaries may be able to incur substantial additional debt in the future, subject to the restrictions contained in our debt instruments, some of which may be secured debt. If, for example, we incur additional debt, secure existing or future debt, or recapitalize our debt, these actions may diminish our ability to make payments on our substantial debt when due.

Regulatory, Compliance, and Legal Risks

Failure to deal effectively with constantly evolving fraud or other illegal activity could harm our business.

Our operations are subject to anti-corruption laws, such as the FCPA, which generally prohibit us and our officers, employees, and third-party intermediaries from, directly or indirectly, offering, authorizing, or making improper payments to government officials and other persons for the purpose of obtaining or retaining business or another advantage. Our operations are also subject to U.S. and foreign export controls, trade sanctions, and import laws and regulations. Such laws may restrict or prohibit the provision of certain products and/or services to countries, governments, and persons targeted by U.S. sanctions. We have adopted policies and procedures that are intended to ensure compliance with law, including, for example anti-corruption, anti-money laundering, export control, and trade sanctions requirements, and we have measures in place to detect and limit the occurrence of fraudulent and other illegal activity in our marketplaces, however, those policies, procedures, and measures may not always be effective. In addition, despite our efforts to comply with our policies and procedures, we may at times fail to do so or may be perceived to have failed to do so. In certain instances, the procedures and measures in place at Reverb, Depop, and Elo7 are not as sophisticated or mature as those used by the Etsy marketplace. Further, the measures that we use to detect and limit the occurrence of fraudulent and other illegal activity must be dynamic and require significant investment and resources, particularly as our marketplaces increase in public visibility and size. Bad actors constantly apply continually evolving technologies and ways to commit fraud and other illegal activity, and regulations requiring marketplaces to detect and limit these activities are increasing. Our measures may not always keep up with these changes. We are and have been subject to requests from regulators regarding these efforts. If we fail to limit the impact of illegal activity in our marketplaces, we could be subject to penalties, fines, other enforcement actions and/or significant expenses and our business, reputation, financial performance, and growth could be adversely affected.

We rely upon third-party service providers to perform certain compliance services. If we or our service providers do not perform adequately, our compliance measures may not be effective, which could increase our expenses, lead to potential legal liability, and negatively impact our business. In addition, we could be subject to penalties, fines, other sanctions, and/or significant expenses.

Our brands may be harmed if third parties or members of our communities use or attempt to use our marketplaces as part of their illegal or unethical business practices.

Our emphasis on our mission and guiding principles makes our reputation particularly sensitive to allegations of illegal or unethical business practices by our sellers or other members of our communities. Our seller policies promote legal and ethical business practices. Etsy expects sellers to work only with manufacturers who comply with all applicable laws, who do not use child or involuntary labor, who do not discriminate, and who promote sustainability and humane working conditions. We also expect our suppliers to comply with our Supplier Code of Conduct. We expect that once we fully integrate Depop and Elo7 into our supply chain management program, Depop and Elo7 suppliers will also be subject to the Supplier Code of Conduct. Although we seek to influence, we do not directly control our sellers, suppliers, or other members of our communities or their business practices, and we cannot ensure that they comply with our policies. If members of our communities engage in illegal or unethical business practices, or are perceived to do so, we may receive negative publicity and our reputation may be harmed.

We may be subject to claims that items listed by sellers in our marketplaces are counterfeit, infringing, illegal, harmful, or otherwise violate our policies.

We frequently receive communications alleging that items listed in our marketplaces, or other user-generated materials posted on our platforms, infringe upon third-party copyrights, trademarks, patents, or other intellectual property rights. We have intellectual property complaint and take-down procedures in place to address these communications, as well as proactive tools and processes, and we believe such procedures are important to promote confidence in our marketplaces, along with both proactive and reactive anti-counterfeiting measures that we use and continue to develop. We follow these procedures to review complaints and relevant facts to determine the appropriate action, which may include removal of the item from our marketplaces and, in certain cases, closing the shops of sellers who violate our policies.

Our procedures may not effectively reduce or eliminate our liability. For example, on the Etsy marketplace we use a combination of automatic and manual tools and depend upon human review in many circumstances. No tools and procedures are guaranteed to function completely without error, particularly for physical, non-standardized goods, our tools and procedures may be subject to error or enforcement failures and may not be adequately staffed, and we may be subject to an increasing number of erroneous or fraudulent demands to remove content. In addition, we may be subject to civil or criminal liability for activities carried out by sellers on our platforms, especially outside the United States where laws may offer less protection for intermediaries and platforms than in the United States.

Under current U.S. copyright laws such as the Digital Millennium Copyright Act § 512 et. seq., we benefit from statutory safe harbor provisions that protect us from copyright liability for content posted on our platforms by sellers and buyers, and we rely upon user content platform protections under 47 U.S.C. § 230 (commonly referred to as CDA § 230), that limits most non-

intellectual property law claims against Etsy based upon content posted by users on our platforms. However, trademark and patent laws do not include similar statutory provisions, and limits on platform liability for these forms of intellectual property are primarily based upon court decisions. Similarly, laws related to product liability vary by jurisdiction, and the liability of marketplace platforms for products and services of sellers, while traditionally limited, is subject to increasing debate in courts, legislatures and legislative proposals, and with regulators. Any legislation or court rulings affecting these safe harbors or other limits on platform liability may adversely affect us and may impose significant operational challenges. For example, there are legislative proposals and pending litigation in both the United States (such as *Gonzalez v. Google*) and European Union that could diminish or eliminate certain safe harbor protections and/or immunities for websites and online platforms. Moreover, changes focused on actions by very large platforms that perform retailer-like functions, or handle mass user content, may directly or indirectly also impact us, our sellers, buyers and vendors.

Proposed and enacted laws in Europe and the United States may change the scope of platform liability, and ongoing case law developments may unpredictably increase our liability as platforms for user activity. In that event, we may be held directly or secondarily liable for the intellectual property infringement, product compliance deficiencies, consumer protection deficiencies, privacy and data protection incidents, or regulatory issues of our sellers, including potentially for their conduct over which we have no control or influence.

Regardless of the validity of any claims made against us, we may incur significant costs and efforts to defend against or settle them. If a governmental authority determines that we have aided and abetted the infringement or sale of counterfeit, harmful or unlawful goods or if legal changes result in us potentially being liable for actions by sellers on our platforms, we could face regulatory, civil, or criminal penalties. As in the past, claims by third-party rights owners could require us to pay damages or refrain from permitting any further listing of the relevant items. These types of claims could seek substantial damages or force us to modify our business practices, which could lower our revenue, increase our costs, or make our platforms less user-friendly. These claims, or legal and regulatory changes, could require the removal of non-infringing, lawful or completely unrelated content, which could negatively impact our business and our ability to retain sellers. Moreover, public perception that unlicensed, counterfeit, harmful or unlawful items are commonly offered by sellers in our marketplaces, even if factually incorrect, could result in negative publicity and damage to our reputation.

We are regularly involved in, litigation, arbitration, and regulatory matters that are expensive and time consuming and that may require changes to our strategy, the features of our platforms, and/or how our business operates.

In addition to intellectual property claims, we are regularly involved in other litigation, arbitration, and regulatory matters, including those related to consumer protection, product liability, security and privacy, or commercial matters, either individually or, where available, on a class-action basis. We have been, are, and may in the future be subject to heightened regulatory scrutiny, inquiries, or investigations, including with respect to our sellers, vendors or third parties, relating to both specific inquiries as well as broad, industry-wide concerns, such as antitrust, product liability, and privacy, that could lead to increased expenses or reputational damage.

Under certain circumstances, we have contractual and other legal obligations to indemnify and to incur legal expenses on behalf of current and former directors, officers, underwriters and other third-parties. Any lawsuit or legal action to which we are a party, with or without merit, may result in an unfavorable judgment. We have in the past settled lawsuits and regulatory actions and may decide in the future to settle lawsuits or regulatory actions, even if non-meritorious. Any such settlements may be on unfavorable terms. Any such negative outcome could result in payments of substantial damages or fines, damage to our reputation, or adverse changes to our offerings or business practices. Any of these results could adversely affect our business. In addition, defending claims is costly and can impose a significant burden on our management.

We limit certain claims against us under our House Rules, policies, and other terms of use, including through requirements for arbitration, limits on class actions, limitations of liability, venue selection, and indemnification requirements. These requirements may be subject to differing interpretations, risks, and legal frameworks in different U.S. federal, state, and foreign jurisdiction courts, and may have reduced or no enforceability in some jurisdictions. Where these claim limitations are unavailable to us, it could significantly increase our costs, require significant resources across multiple jurisdictions, result in complex or inconsistent decisions, and subject us to forum shopping by third parties seeking jurisdictions amenable to their claims.

Lawsuits, enforcement actions, and other legal proceedings brought against us have resulted in settlements, and may result in injunctions, damages, fines, or penalties, which could have a material adverse effect on our financial condition or results of operations or require changes to our business. Although we establish accruals for our litigation and regulatory matters in accordance with applicable accounting guidance when those matters proceed to a stage where they present loss contingencies that are both probable and reasonably estimable, there may be a material exposure to loss in excess of any amounts accrued, or in excess of any loss contingencies disclosed as reasonably probable, particularly in more uncertain legal or regulatory environments. Such loss contingencies may not be probable and reasonably estimable until the proceedings have progressed significantly, which could take several years and occur close to resolution of the matter.

Expanding and evolving regulations in the areas of privacy and user data protection could create technological, economic and complex cross-border business impediments to our business and those of our sellers.

We collect, receive, store, process, generate, use, transfer, disclose, make accessible, protect, secure, dispose of, and share personal information, confidential information and other sensitive or potentially protected information necessary to provide our service, to operate our business, for legal and marketing purposes, and for other business-related purposes.

Data protection has become a significant issue in the United States, countries in the European Union, and in many other countries in which we operate. In addition to the actual and potential changes in data protection laws described elsewhere in these Risk Factors, global developments in privacy and data security regulations have changed and may continue to change some of the ways we, our sellers, our vendors and other third parties collect, use, and share personal information and other proprietary or confidential information, and have created and will continue to create additional compliance obligations for us and our sellers, vendors, and other third parties.

In the European Union, the E.U. General Data Protection Regulation (“GDPR”) contains strict requirements for processing the personal data of individuals residing in E.U. member states, the European Economic Area (“EEA”), and certain additional territories. The GDPR contains numerous requirements, including robust obligations on data controllers and data processors, greater rights for data subjects, including, for example, the “right to be forgotten,” and increased data portability, access, and redress rights for E.U. data subjects (requiring changes to both our technology and operations), security and accountability obligations, (including stringent data breach notification requirements), increased rules for online and email marketing, compliance requirements related to our sellers, vendors and other third parties, stronger regulatory enforcement regimes, and significantly heavier documentation and record-keeping requirements. The GDPR is subject to changing interpretations due to decisions of data protection authorities, courts, and related legislative efforts both E.U.-wide and in particular jurisdictions. Due to the GDPR and the implementation following Brexit of the U.K. General Data Protection Regulation (“U.K. GDPR”) (i.e., a version of the GDPR as implemented into U.K. law that combines the GDPR and the U.K. Data Protection Act of 2018), we may experience difficulty retaining or obtaining new E.U. or U.K. sellers, or current and new sellers may limit their selling into the European Union, due to the legal requirements, compliance cost, potential risk exposure, and uncertainty for them about their own compliance obligations with respect to the GDPR and U.K. GDPR. Furthermore, while the GDPR and U.K. GDPR remain substantially similar for the time being, the U.K. GDPR is currently under review in the United Kingdom and there may be further changes made to it over the next few years, including in ways that may differ from the GDPR, which could result in further compliance obligations. In addition, although our sellers are independent businesses, it is possible that a privacy authority could deem us jointly and severally liable for actions of our sellers or vendors, which would increase our potential liability exposure and costs of compliance, which could negatively impact our business. We could face potential liability, regulatory investigation, and costly litigation, which may not be adequately covered by insurance.

In the United States, rules and regulations governing data privacy and security include those promulgated under the authority of the Federal Trade Commission Act, the Electronic Communications Privacy Act, the Computer Fraud and Abuse Act, California’s California Consumer Privacy Act of 2018 (“CCPA”) and California Privacy Rights Act of 2020 (“CPRA”), and other state and federal laws relating to privacy, consumer protection, and data security. The CCPA and CPRA include requirements regarding the handling of personal information of California consumers and households, including compliance and record keeping obligations, the right to request access to and deletion of their personal information, and the right to opt out of the sale and other uses of their personal information, and provides a private right of action and statutory damages for data breaches.

Other jurisdictions in the United States are beginning to expand existing regulations, or propose laws similar to the CCPA, which will continue to shape the data privacy environment nationally. Aspects of certain newly enacted state privacy statutes remain unclear, resulting in further legal uncertainty and potentially requiring us to modify our data practices and policies and to incur substantial additional costs and expenses in an effort to comply. If more stringent privacy legislation arises in the United States, it could increase our potential liability and adversely affect our business, results of operations, and financial condition.

GDPR, CCPA, and similar laws in other jurisdictions, and future changes to or interpretations of any of these laws, may continue to change the data protection landscape globally, may be potentially inconsistent or incompatible, and could result in potentially significant operational costs for internal compliance and risk to our business. Some of these requirements introduce friction into the buying and selling experience on our platforms and may impact the scope and effectiveness of our marketing efforts, which could negatively impact our business and future outlook. Complying with these laws and contractual or other obligations relating to privacy, data protection, data transfers, data localization, or information security may require us to make changes to our services to enable us or our customers to meet new legal requirements, incur substantial operational costs, modify our data practices and policies, and restrict our business operations. Any actual or perceived failure by us to comply with these laws, regulations, or other obligations may lead to significant fines, penalties, regulatory investigations, lawsuits, significant costs for remediation, damage to our reputation, or other liabilities. For example, under the GDPR alone, noncompliance could result in fines of up to 20 million Euros or up to 4% of the annual global revenue of the noncompliant company, whichever is greater. We may not be entirely successful in our compliance efforts due to various factors either within our control (such as limited internal resource allocation) or outside our control (such as a lack of vendor cooperation, new regulatory interpretations, or lack of regulatory guidance in respect of certain requirements).

In addition, E.U. data protection laws also generally prohibit the transfer of personal information from Europe to the United States and most other countries unless the recipient country has been deemed to have adequate privacy protections in place to protect the personal information. Etsy relies on a variety of compliance methods to transfer personal data of EEA individuals to the

United States, including but not limited to Standard Contractual Clauses (“SCCs”) as approved by the European Commission for transfers to and from third parties. The European Commission recently initiated the process to adopt an adequacy decision for the E.U.-U.S. Data Privacy Framework, a replacement to the E.U.-U.S. Privacy Shield; however, it is unclear if and when the framework will be finalized or adopted, further increasing uncertainty and the costs of cross-border data transfers. Similarly, U.K.-based data exporters are required to use the International Data Transfer Agreement (“IDTA”) and the International Data Transfer Addendum to the European Commission’s Standard Contractual Clauses (“U.K. Addendum”) as mechanisms to comply with the U.K. GDPR when making restricted international transfers of personal data of U.K. data subjects. To the extent Etsy relies on SCCs, the IDTA or the U.K. Addendum, we may be required to incur additional costs and take additional steps to legitimize certain cross-border data transfers from the EEA, including new contractual arrangements under the updated requirements to avoid limitations on Etsy’s ability to process EEA data in countries outside of the EEA.

Continuing changes to the rules related to cross-border transfers may impede Etsy and our subsidiaries’ ability to effectively transfer data between jurisdictions with parties such as partners, vendors and users, or may make such transfers of personal data more costly. In particular, certain European Commission guidance and updates to the SCCs, IDTA or U.K. Addendum may impose additional obligations on companies seeking to rely on such compliance methods and may require significant expense and resources associated with compliance. Additionally, certain countries outside Europe have also passed or are considering laws requiring local data residency or otherwise impeding the transfer of personal data across borders, any of which could increase the cost and complexity of doing business. Transfers by us or our vendors of personal information from Europe pursuant to SCCs may not comply with E.U. data protection law, may increase our exposure to the GDPR’s and U.K. GDPR’s heightened sanctions for violations of its cross-border data transfer restrictions, and may result in lower sales on our platforms because of difficulty of establishing a lawful basis for personal information transfers out of Europe.

We also publish privacy policies and other documentation regarding our collection, processing, use, and disclosure of personal data. Although we endeavor to comply with our published policies and documentation, we may at times fail to do so or may be perceived to have failed to do so. Moreover, despite our efforts, we may not be successful in achieving compliance, such as if our employees or vendors fail to comply with our published policies and documentation. We are subject to occasional requests from regulators regarding these efforts. Failures can subject us to potential international, local, state, and federal action under both data protection and consumer protection laws. We are or may also be subject to the terms of our own and third-party external and internal privacy and security policies, codes, representations, certifications, industry standards, publications and frameworks and contractual obligations to third parties related to privacy, information security, including contractual obligations to indemnify and hold harmless third parties from the costs or consequences of non-compliance with data protection laws, or other obligations.

Our sellers and vendors may have been and may in the future be subject to similar privacy requirements, which may significantly increase costs and resources dedicated to their compliance with such requirements. We have varying contractual and other legal obligations to notify relevant stakeholders of security breaches related to us or, in some cases, our third-party service providers. Many jurisdictions have enacted laws requiring companies to notify individuals, regulatory authorities, and others of security breaches involving certain types of data in some circumstances. In addition, our agreements with certain stakeholders may require us to notify them in the event of such a security breach. Such mandatory disclosures, even if only related to actions of a third-party vendor, are costly, could lead to negative publicity, may cause members of our communities to lose confidence in the effectiveness of our security measures and require us to expend significant capital and other resources to respond to and/or alleviate problems caused by the actual or perceived security breach, and may cause us to breach customer contracts. Our contracts, our representations or industry standards, to varying extents, require us to use industry-standard or reasonable measures to safeguard sensitive personal information or confidential information. A cyber incident or security breach could lead to claims by members of our communities, or other relevant stakeholders that we have failed to comply with such legal or contractual obligations. As a result, we could be subject to legal action or members of our communities could end their relationships with us. There can be no assurance that any indemnifications, limitations of liability or other remedies in our contracts would be enforceable or adequate or would otherwise protect us from liabilities or damages.

We may not have adequate insurance coverage for security incidents or data breaches, including fines, judgments, settlements, penalties, costs, attorney fees, and other impacts that arise out of incidents or breaches. If the impacts of a security incident or data breach, or the successful assertion of one or more large claims against us that exceeds our available insurance coverage, is of a type not subject to insurance, or results in changes to our insurance policies (including premium increases or the imposition of large deductible or co-insurance requirements), it could have an adverse effect on our business. In addition, we cannot be sure that our existing insurance coverage, cyber coverage, and coverage for errors and omissions will continue to be available on acceptable terms or that our insurers will not deny coverage as to all or part of any future claim or loss. Our risks are likely to increase as we continue to expand, grow our customer base, and process, store, and transmit increasingly large amounts of proprietary and sensitive data.

Our business and our sellers and buyers may be subject to evolving sales and other tax regimes in various jurisdictions, which may harm our business.

The application of indirect taxes, such as sales and use tax, value-added tax, provincial tax, goods and services tax, business tax, withholding tax, digital service tax, gross receipt tax, and tax information reporting obligations to businesses like ours and to our sellers and buyers is a complex and evolving issue. Significant judgment is required to evaluate applicable tax obligations and as a result amounts recorded are estimates and are subject to adjustments. In many cases, the ultimate tax determination is

uncertain because it is not clear when and how new and existing statutes might apply to our business or to our sellers' businesses. In some cases it may be difficult or impossible for us to validate information provided to us by our sellers on which we must rely to ascertain Etsy's potential obligations, given the intricate nature of these regulations as they apply to particular products or services and that many of the products and services sold in our marketplace are unique or handmade.

Various jurisdictions (including the U.S. states and E.U. member states) are seeking to, or have recently imposed additional reporting, record-keeping, indirect tax collection and remittance obligations, or revenue-based taxes on businesses like ours that facilitate online commerce. For example, the American Rescue Plan Act of 2021 included a provision which significantly increases the number of sellers for whom we must report payment transactions. If requirements like these become applicable in additional jurisdictions, our business, collectively with our sellers' businesses, could be harmed. For example, taxing authorities in many U.S. states and in other countries have targeted e-commerce platforms as a means to calculate, collect, and remit indirect taxes for transactions taking place over the internet, and others are considering similar legislation. Such changes to current law or new legislation could adversely affect our business and our sellers' businesses if the requirement of tax to be charged on items sold on our marketplaces causes our marketplaces to be less attractive to current and prospective buyers. This legislation could also require us or our sellers to incur substantial costs in order to comply, including costs associated with tax calculation, collection, remittance, and audit requirements, which could make selling on our marketplaces less attractive. Additionally, the European Union, certain member states, and other countries have proposed or enacted taxes on online advertising and marketplace service revenues. Our results of operations and cash flows could be adversely affected by additional taxes of this nature imposed on us prospectively or retroactively or additional taxes or penalties resulting from the failure to provide information about our buyers, sellers, and other third parties for tax reporting purposes to various authorities. In some cases, we also may not have sufficient notice to enable us to build solutions and adopt processes to properly comply with new reporting or collection obligations by the applicable effective date.

If we are found to be deficient in how we have addressed our tax obligations, our business could be adversely impacted.

Our business is subject to a large number of U.S. and non-U.S. laws, many of which are evolving.

We are subject to a variety of laws and regulations in the United States and around the world, including those relating to traditional businesses, such as employment laws, accessibility requirements, and taxation, and laws and regulations focused on e-commerce and online marketplaces, such as online payments, privacy, anti-spam, data security and protection, online platform liability, marketplace seller regulation, intellectual property, artificial intelligence, automated decision-making, and machine learning, product liability, marketing, and consumer protection. In addition, new regulations, laws, policies, and international accords relating to environmental and social matters, including sustainability, climate change, human capital, and diversity, are being developed and formalized in Europe, the United States (both at the federal level and on a state-by-state basis), and elsewhere, which may entail specific, target-driven frameworks and/or disclosure requirements. Examples include data localization requirements, limitation on marketplace scope or ownership, intellectual property intermediary liability rules, regulation of online speech and content moderation, limits on network neutrality, packaging and recycling requirements, seller certification and representative requirements, know-your-customer/business regulations such as the INFORM Consumers Act (the "INFORM Act") that will soon become effective in the United States, and rules related to security, privacy, or national security, which may impede us, our users, or our vendors. In light of our international operations, we need to comply with various laws associated with doing business outside of the United States, including anti-money laundering, sanctions, anti-corruption, and export control laws. In some cases, non-U.S. privacy, data security, consumer protection, e-commerce, and other laws and regulations are more detailed or comprehensive than those in the United States and, in some countries, are more actively enforced.

These laws and regulations are continuously evolving, and compliance is costly and can require changes to our business practices and significant management time and effort. Additionally, it is not always clear how existing laws apply to online marketplaces as many of these laws do not address the unique issues raised by online marketplaces or e-commerce. In some jurisdictions, these laws and regulations subject us to attempts to apply domestic rules worldwide against Etsy or our subsidiaries, and occasionally may subject us to inconsistent obligations across jurisdictions. In addition, outside of the United States, governments of one or more countries have in the past and may continue to seek to censor content available on our platforms (including at times over lawful content), or may even attempt to block access to our platforms.

We strive to comply with all applicable laws, but they may conflict with each other, and by complying with the laws or regulations of one jurisdiction, we may find that we are violating the laws or regulations of another jurisdiction. Despite our efforts, we may not have fully complied in the past and may not be able to fully or timely comply in the future, particularly where the applicable regulatory regimes are new or have not been broadly interpreted. If we become liable under laws or regulations applicable to us, we could be required to pay significant fines and penalties, our reputation may be harmed, and we may be forced to change the way we operate. That could require us to incur significant expenses or to discontinue certain services, which could negatively affect our business. In addition, if we are restricted from operating in one or more countries, our ability to attract and retain sellers and buyers may be adversely affected and we may not be able to grow our business as we anticipate.

Additionally, if third parties with whom we work violate applicable laws or our policies, those violations could also result in liabilities for us and could harm our business. Our ability to rely on insurance, contracts, indemnification and other remedies to limit these liabilities, may be insufficient or unavailable in some cases. Furthermore, the circumstances in which we may be held

liable for the acts, omissions, or responsibilities of our sellers is uncertain, complex, and evolving. For example, certain laws have recently been enacted seeking to hold marketplaces like ours responsible for certain compliance obligations for which sellers have traditionally been responsible. If an increasing number of such laws are passed, the resulting compliance costs and potential liability risk could negatively impact our business.

Expanding our operations in Latin America and India may expose us to additional risks.

In 2021, we acquired Elo7, which currently operates principally in Brazil. We have also recently opened offices in Mexico and India. Each of these jurisdictions has a legal framework, regulatory environment, and culture that differs materially from those of North America and Europe where our operations have historically been located. If we are unable to manage these risks, it could adversely affect our business, financial performance, and growth. Further, the success of our Elo7 marketplace may be adversely affected by macroeconomic, social, and political conditions prevailing in Brazil and Latin America. Decreases in the growth rate, periods of negative growth, increases in inflation, persistent deflation, changes in law, regulation, policy, or future judicial rulings and interpretations of policies involving exchange and capital controls and other matters such as (but not limited to) currency depreciation, foreign exchange regulations, inflation, interest rates, taxation, employment and labor laws, banking laws, anti-corruption laws, and regulations and other political, economic, or regulatory developments in or affecting Brazil and/or other parts of Latin America may affect the overall business environment and may, in turn, adversely impact Elo7's financial condition and results of operations in the future or create obstacles to the successful integration of Elo7 into Etsy.

Increased regulation of technology companies, even if focused on large, widely adopted platforms, may inadvertently impede smaller platforms and small businesses, including us and our sellers.

We believe that it is, and that it should continue to be, relatively easy for new businesses to create online commerce offerings or tools or services that enable entrepreneurship. However, as the technology space is increasingly subject to regulation, there is a risk that legislation, and regulatory or competition inquiries, even if focused on large, widely adopted platforms, may inadvertently impede smaller platforms and small businesses, including us and our sellers.

New platform liability laws, potential amendments to existing laws, and ongoing regulatory and judicial interpretation of these laws imparting liability for conduct by users of a platform may create costs and uncertainty for both Etsy and sellers on our platforms. This may even be the case for new laws or regulations focused on other technology areas, business practices, or other third parties that nonetheless indirectly or unintentionally impact us, our sellers, or our vendors. For example, the European Union's Digital Markets Act ("DMA") and Digital Services Act ("DSA"), and proposed changes to the General Product Safety Directive ("GPSD"), may impact us directly, as well as impacting our sellers and vendors. Similarly, anti-waste regulations in Germany and France and new proposed sustainability-related EU-wide regulations directly impact our sellers, as well as impose compliance verification obligations on us. In the United Kingdom, the Online Safety Bill ("OSB") which continues through Parliament may impact us in a range of content regulation areas subject to our categorization by the regulator, including by imposing additional protections regarding illegal content, child safety, fraud, and platform transparency. If we and our sellers are unable to cost-effectively comply with new regulatory regimes, such as if the regulations place requirements on our sellers that they find difficult or impossible to comply with, or require us to take actions at a scale inconsistent with the size, investment, and operation of our marketplaces, our sellers may elect not to ship into, or we may be required to restrict shipping into, the impacted jurisdictions, and our business could be harmed. In addition, there have been various Congressional efforts to require platforms to vet and police sellers (including the recently enacted INFORM Act), restrict the scope of the intermediary liability protections available to online platforms for third-party user content. As a result, our current protections from liability for third-party content in the United States could significantly decrease or change. We could incur significant costs implementing required changes, investigating and defending claims and, if we are found liable, significant damages. In addition, if legislation or regulatory inquiries, even if focused on other entities, require us to expend significant resources in response or result in the imposition of new obligations, our business and results of operations could be adversely affected.

We also operate under an increasing number of regulatory regimes which, if certain statutory requirements are met, may protect us and our sellers and buyers worldwide, such as intellectual property and anti-counterfeiting laws, payments and taxation, competition, marketplace platform regulation, hate speech laws, and general commerce regulation. These laws, and court or regulatory interpretations of these laws (including their limitations and safe harbors), may shift quickly in the United States and worldwide. For example, upcoming regulations may impose significant verification, certification or additional compliance obligations on both us and our sellers. We may not have the resources or scale to effectively adapt to and comply with any changes to these regulatory regimes which may limit our ability to take advantage of the protections these regimes offer. In addition, some of these changes may be at least partially inconsistent with how our platforms operate, especially if they are adopted in the context of, or in a manner best suited for, larger platforms, which may make it harder for us to protect our marketplaces under these regimes. If we are unable to cost-effectively protect our platforms, sellers and buyers under these regulatory regimes, such as if the regulations place requirements on our sellers that they find difficult or impossible to comply with, limit the functions or features our marketplaces can offer, or require us to take actions at a scale inconsistent with the size, investment, and operation of our marketplaces, our business could be harmed.

We may be subject to intellectual property claims, which, even if untrue, could be extremely costly to defend, damage our brands, require us to pay significant damages, and limit our ability to use certain technologies in the future.

Companies in the internet and technology industries are frequently subject to litigation based on allegations of infringement or other violations of intellectual property rights. We periodically receive communications that claim we have infringed, misappropriated, or misused others' intellectual property rights. To the extent we gain greater public recognition and scale worldwide, we may face a higher risk of being the subject of intellectual property claims. Third parties have from time to time claimed or may in the future claim that they have intellectual property rights that cover significant aspects of our technologies or business methods and prevent us from expanding our offerings. Third parties sometimes allege a company is secondarily liable for intellectual property infringement, or that it is a joint infringer with another party, including claims that Etsy is liable, either directly, indirectly, or vicariously, for infringement claims against sellers using Etsy's platforms, our vendors, or other third parties, and that statutory, judicial, or other immunities and defenses do not protect us. Intellectual property claims against us, with or without merit, have been and could in the future be time consuming and expensive to settle or litigate and could divert the attention of our management. Litigation regarding intellectual property rights is inherently uncertain due to the complex issues involved, and we may not be successful in defending ourselves in such matters. For claims against us, insurance may be insufficient or unavailable, and for claims related to actions of third parties, either indemnification or remedies against those parties may be insufficient or unavailable.

Some of our competitors have extensive portfolios of issued patents. Many potential litigants, including some of our competitors, patent holding companies, and other intellectual property rights holders, have the ability to dedicate substantial resources to enforcing their alleged intellectual property rights. Any claims successfully brought directly against us, or implicating us as part of an action against third parties, such as our sellers or vendors, could subject us to significant liability for damages, and we may be required to stop using technology or other intellectual property alleged to be in violation of a third-party's rights in one or more jurisdictions where we do business. We have been and might in the future be required to seek a license for third-party intellectual property. Even if a license is available, we could be required to pay significant royalties or submit to unreasonable terms, which would increase our operating expenses. We may also be required to develop alternative non-infringing technology, which could require significant time and expense. If we cannot license or develop technology for any allegedly infringing aspect of our business, we could be forced to limit our service and may be unable to compete effectively. Any of these results could harm our business.

We are subject to the terms of open source licenses because our platforms incorporate, and we contribute to, open source software, potentially impairing our ability to adequately protect our intellectual property.

The software powering our platforms incorporates software covered by open source licenses. In addition, we regularly contribute source code to open source software projects and release internal software projects under open source licenses, and we anticipate doing so in the future. The terms of many open source licenses relied upon by us and the internet and technology industries have been interpreted by only a few court decisions and there is a risk that the licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to operate our marketplaces. Under certain open source licenses, if certain conditions were met, we could be required to publicly release aspects of the source code of our software or to make our software available under open source licenses.

To avoid the public release of the affected portions of our source code, we could be required to expend substantial time and resources to re-engineer some or all of our software. In addition, use of open source software can lead to greater risks than use of third-party commercial software because open source licensors generally do not provide warranties or controls on the origin of the software. Use of open source software also presents additional security risks because the public availability of such software may make it easier for hackers and other third parties to determine how to compromise our platforms, and availability of patches or fixes may not be consistent or quickly available, as it may be subject to the continued community engagement in a particular open source project. Additionally, because any software source code we contribute to open source projects is publicly available, while we may benefit from the contributions of others, our ability to protect our intellectual property rights in such software source code may be limited or lost entirely, and we will be unable to prevent our competitors or others from using such contributed software source code. Similarly, we may be subject to third-party intellectual property claims as a user of or contributor to such open source software. Any of these risks could be difficult to eliminate or manage and, if not addressed, could adversely affect our business, financial performance, and growth.

If we are unable to maintain effective internal controls over financial reporting, investors may lose confidence in the accuracy of our financial reports.

As a public company, we are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal controls over financial reporting. It also requires our independent registered public accounting firm to attest to our evaluation of our internal controls over financial reporting. Although our management has determined, and our independent registered public accounting firm has attested, that our internal controls over financial reporting were effective as of

December 31, 2022, we cannot assure you that we or our independent registered public accounting firm will not identify a material weakness in our internal controls in the future.

If we have a material weakness in our internal controls over financial reporting in the future, we may not detect errors on a timely basis. If we have difficulty implementing and maintaining effective internal control over financial reporting at the businesses we have acquired or that we may in the future acquire, or if we identify a material weakness in our internal controls over financial reporting in the future, it could harm our operating results, adversely affect our reputation, cause our stock price to decline, or result in inaccurate financial reporting or material misstatements in our annual or interim financial statements. We could be required to implement expensive and time-consuming remedial measures. Further, if there are material weaknesses or failures in our ability to meet any of the requirements related to the maintenance and reporting of our internal controls, such as Section 404 of the Sarbanes-Oxley Act, investors may lose confidence in the accuracy and completeness of our financial reports and that could cause the price of our common stock to decline. We could become subject to investigations by Nasdaq, the SEC or other regulatory authorities, which could require additional management attention and which could adversely affect our business.

In addition, our internal controls over financial reporting will not prevent or detect all errors and fraud, and individuals, including employees and contractors, could circumvent such controls. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud will be detected.

Other Risks

The price of our common stock has been and will likely continue to be volatile, and declines in the price of common stock could subject us to litigation.

The price of our common stock has been and is likely to continue to be volatile. Some companies that have experienced volatility in the trading price of their stock have been the subject of securities litigation. We have experienced securities class action lawsuits in the past and may experience more such litigation following future periods of volatility or declines in our stock price. Any securities litigation could result in substantial costs and divert our management's attention and resources, which could adversely affect our business.

For example, between January 1, 2022 and April 28, 2023, our common stock's daily closing price on Nasdaq has ranged from a low of \$69.00 to a high of \$209.93. The price of our common stock may fluctuate significantly for numerous reasons, many of which are beyond our control, such as:

- variations in our operating results and other financial and operational metrics, including the key financial and operating metrics disclosed in this Quarterly Report, as well as how those results and metrics compare to analyst and investor expectations;
- forward-looking statements related to our financial guidance or projections, our failure to meet or exceed our financial guidance or projections or changes in our financial guidance or projections;
- failure of analysts to initiate or maintain coverage of our company, changes in their estimates of our operating results or changes in recommendations by analysts that follow our common stock or a negative view of our financial guidance or projections and our failure to meet or exceed the estimates of such analysts;
- the strength of the global economy or the economy in the jurisdictions in which we operate, particularly during times of macroeconomic uncertainty affecting members of our communities;
- entry into or exit from stock market indices;
- announcements of new services or enhancements, strategic alliances or significant agreements or other developments by us or our competitors;
- announcements by us or our competitors of mergers or acquisitions or rumors of such transactions involving us or our competitors;
- the amount and timing of our operating expenses and the success of any cost-savings actions we take;
- changes in our Board of Directors or senior management team;
- disruptions in our marketplaces due to hardware, software or network problems, security breaches, or other issues;
- the trading activity of our largest stockholders;
- the number of shares of our common stock that are available for public trading;

- litigation or other claims against us;
- stakeholder activism;
- the operating performance of other similar companies;
- changes in legal requirements relating to our business; and
- any other factors discussed in this Quarterly Report.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the price of our common stock could decline for reasons unrelated to our business, financial performance, or growth. Stock prices of many internet and technology companies have historically been highly volatile.

Future sales and issuances of our common stock or rights to purchase common stock, including upon conversion of our convertible notes, could result in additional dilution to our stockholders and could cause the price of our common stock to decline.

We may issue additional common stock, convertible securities, or other equity in the future, including as a result of conversion of the outstanding Notes. We also issue common stock to our employees, directors, and other service providers pursuant to our equity incentive plans. Such issuances could be dilutive to investors and could cause the price of our common stock to decline. New investors in such issuances could also receive rights senior to those of current stockholders.

The conversion of some or all of the Notes would dilute the ownership interests of existing stockholders to the extent we deliver shares upon conversion of any of the Notes. Each series of Notes is convertible at the option of their holders prior to their scheduled maturity in the event the conditional conversion features of such series of Notes are triggered. Based on the daily closing prices of our stock during the quarter ended March 31, 2023, holders of the 2021 Notes, 2020 Notes, and 2019 Notes, are not eligible to convert their 2021 Notes, 2020 Notes, and remaining 2019 Notes, respectively, during the second quarter of 2023. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely cash to converting holders of such Notes, we could be required to deliver to them a significant number of shares of our common stock, increasing the number of outstanding shares of our common stock. The issuance of such shares of common stock and any sales in the public market of the common stock issuable upon such conversion of the Notes could adversely affect prevailing market prices of our common stock. See Part I, Item 1, “Note 7—Debt” for more information on the Notes.

Our certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.

Our certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for the following types of actions or proceedings under Delaware statutory or common law:

- any derivative action or proceeding brought on our behalf;
- any action asserting a breach of fiduciary duty;
- any action asserting a claim against us arising pursuant to the Delaware General Corporation Law; and
- any action asserting a claim against us that is governed by the internal affairs doctrine.

This provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all such Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. While the Delaware courts have determined that choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than that designated in our exclusive forum provision. In such an instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provision of our certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions.

This choice of forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees and may discourage these types of lawsuits. Alternatively, if a court were to find the choice of forum provision contained in our certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions.

Our business could be negatively affected as a result of actions of activist stockholders.

The actions of activist stockholders could adversely affect our business. Specifically, responding to common actions of an activist stockholder, such as requests for special meetings, potential nominations of candidates for election to our Board of Directors, requests to pursue a strategic combination, or other transaction or other special requests, could disrupt our operations, be costly and time-consuming, or divert the attention of our management and employees. In addition, perceived uncertainties as to our future direction in relation to the actions of an activist stockholder may result in the loss of potential business opportunities or the perception that we are unstable as a company, which may make it more difficult to attract and retain qualified employees. Our ability to continue to commit to our mission, guiding principles, and culture may also be questioned, which could impact our ability to attract and retain buyers and sellers. Actions of an activist stockholder may also cause fluctuations in our stock price based on speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

Our stock repurchases are discretionary and even if effected, they may not achieve the desired objectives.

We have from time to time repurchased shares of our common stock under stock repurchase programs approved by our Board of Directors or in connection with our issuances of convertible notes. In May 2022, our Board of Directors approved a stock repurchase program authorizing us to repurchase up to \$600 million of our common stock, of which approximately \$153 million remained available as of March 31, 2023. There can be no assurance that any repurchases pursuant to our stock repurchase programs will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased such shares. In addition, there is no guarantee that our stock repurchases in the past or in the future will be able to successfully mitigate the dilutive effect of recent and future employee stock option exercises and restricted stock vesting or of any issuance of common stock in connection with the conversion of Notes. The amounts and timing of the repurchases may also be influenced by general market conditions, regulatory developments (including recent legislative actions which, subject to certain conditions, may impose an excise tax of 1% on our stock repurchases) and the prevailing price and trading volumes of our common stock. If our financial condition deteriorates or we decide to use our cash for other purposes, we may suspend repurchase activity at any time.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, could limit attempts to make changes in our management and could depress the price of our common stock.

Provisions in our certificate of incorporation and bylaws and the Delaware General Corporation Law may have the effect of delaying or preventing a change in control of our company or limiting changes in our management. Among other things, these provisions:

- provide for a classified board of directors so that not all members of our Board of Directors are elected at one time;
- permit our Board of Directors to establish the number of directors and fill any vacancies and newly created directorships;
- provide that directors may only be removed for cause;
- require super-majority voting to amend some provisions in our certificate of incorporation and bylaws;
- authorize the issuance of “blank check” preferred stock that our Board of Directors could use to implement a stockholder rights plan;
- eliminate the ability of our stockholders to call special meetings of stockholders;
- prohibit stockholder action by written consent, which means all stockholder actions must be taken at a meeting of our stockholders;
- provide that our Board of Directors is expressly authorized to amend or repeal any provision of our bylaws; and
- require advance notice for nominations for election to our Board of Directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

These provisions may delay or prevent attempts by our stockholders to replace members of our management by making it more difficult for stockholders to replace members of our Board of Directors, which is responsible for appointing the members of our management. In addition, Section 203 of the Delaware General Corporation Law may delay or prevent a change in control of our company by imposing certain restrictions on mergers, business combinations, and other transactions between us and holders of 15% or more of our common stock. Anti-takeover provisions could depress the price of our common stock by acting to delay or prevent a change in control of our company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Sales of Unregistered Equity Securities.

During the three months ended March 31, 2023, we issued 12,353 shares of our unregistered common stock pursuant to post-closing obligations in connection with our acquisition of Depop. The issuance did not involve any underwriters, any underwriting discounts or commissions, or any public offering. The issuance was made in reliance on one or more of the following exemptions or exclusions from the registration requirements of the Securities Act: Section 4(a)(2) of the Securities Act, and Regulation D promulgated under the Securities Act.

Issuer Purchases of Equity Securities.

The table below provides information with respect to repurchases of shares of our common stock during the three months ended March 31, 2023.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share(2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(3)(4)	Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs (in thousands)(3)
January 1 - 31	374,029	\$ 127.79	374,029	\$ 253,628
February 1 - 28	334,323	135.83	334,323	208,211
March 1 - 31	496,799	110.65	496,799	153,232
Total	<u>1,205,151</u>		<u>1,205,151</u>	153,232

- (1) The total number of shares purchased does not include shares withheld to satisfy tax withholding obligations in connection with the vesting of employee restricted stock units or the 1,194,006 shares received and retired from the 2018 capped call transactions. See Note 7—Debt.
- (2) Average price paid per share excludes broker commissions.
- (3) Effective May 3, 2022, our Board approved a stock repurchase program that authorizes the repurchase of up to \$600 million of our common stock.
- (4) All of these shares were purchased pursuant to a 10b5-1 trading plan.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.1*	Form of Restricted Stock Unit (RSU) Agreement under 2015 Equity Incentive Plan (2023)					X
10.2*	Form of Performance Stock Unit (PSU) Agreement under 2015 Equity Incentive Plan (2023)					X
10.3*	Amended and Restated Compensation Program for Non-Employee Directors, effective February 6, 2023					X
10.4*	Letter Agreement between Etsy, Inc. and Colin Stretch, dated January 20, 2023					X
10.5	Amended and Restated Credit Agreement dated as of March 24, 2023, among Etsy, Inc., JPMorgan Chase Bank, N.A., and the other parties thereto					X
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended					X
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended					X
32.1†	Certification of Chief Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350					X
32.2†	Certification of Chief Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350					X
101.INS	Inline XBRL Instance Document**					X
101.SCH	Inline XBRL Taxonomy Schema Linkbase Document					X
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Labels Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document					X
104	Cover Page Interactive Data File - the cover page interactive data is embedded within the Inline XBRL document***					X

* Indicates a management contract or compensatory plan.

† These certifications are not deemed to be filed with the SEC and are not to be incorporated by reference into any filing of Etsy, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

** The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

*** The cover page interactive data file is embedded within the inline XBRL document and included in Exhibit 101.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ETSY, INC.

Date: May 3, 2023

/s/ Merilee Buckley

Merilee Buckley
Chief Accounting Officer
(Principal Accounting Officer)