

15 December 2022

US Internet

# Etsy Bull/Bear Debate

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# Etsy Bull Points

## **After 1Q23, comparisons get a lot easier**

- 3-year comps ease by over 100ppts in 2Q23
- This could be a catalyst for improvement for YoY Gross Merchandise Sales (GMS) growth

## **Active buyer count has stabilized**

- Active buyers increased quarter-over-quarter in 3Q22 for the first time since 4Q21
- If trend continues this could be a positive for 2023 GMS growth

## **Etsy has outperformed Street expectations, upside possible in 4Q**

- Etsy has exceeded Street revenue and EBITDA estimates every quarter since 3Q21
- Etsy web traffic has accelerated through late November, GMS upside possible in 4Q22

## **High margin business with durable competitive barriers**

- Steady track record for growing earnings and favorable margins relative to other marketplaces
- Unique marketplace for non-commoditized goods, low product and pricing overlap

## **Solid balance sheet and cash flow generation**

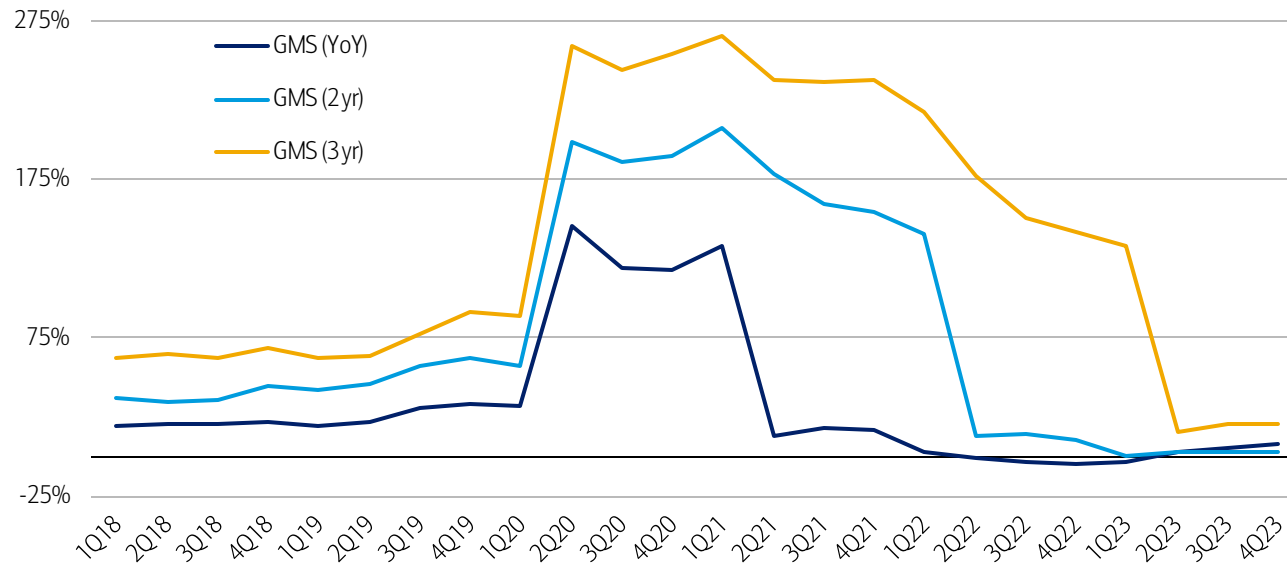
- Capital return through buybacks could increase over the next several years
- Minimal working capital and capex needs, acquisitions unlikely and long-dated debt



# After 1Q23, comparisons get a lot easier

- On a 3yr basis, Etsy is still facing triple digit comparison for GMS
- 3-year comps ease by over 100ppts in 2Q23
  - This could be a catalyst for improvement for YoY GMS growth
  - Tougher macro the biggest risk to GMS reaccelerating

ETSY gross merchandise sales (GMS) trend

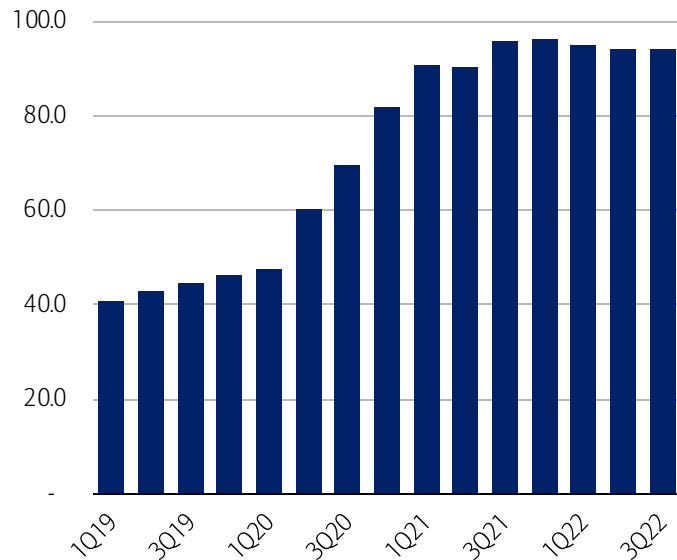




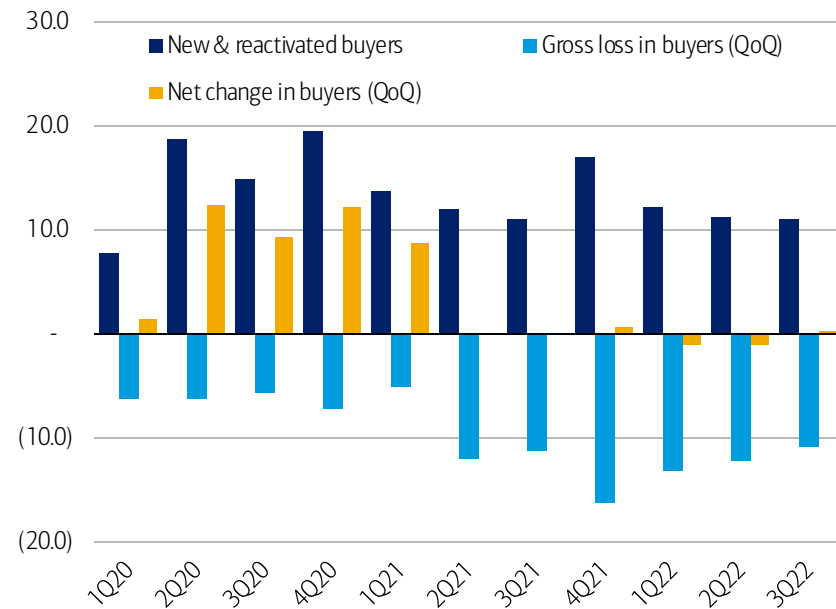
# Active buyer count has stabilized

- Compared to other COVID beneficiaries, Etsy's active buyer count has proven more resilient
- Active buyers increased quarter-over-quarter in 3Q22 for the first time since 4Q21
  - New and reactivated buyer count has stabilized while fewer customers are dropping off
  - Increased marketing investments and search improvements appear to be driving better results
  - If trend continues this could be a positive for 2023 GMS growth

ETSY active buyers (millions)



Net change in active buyers (millions)

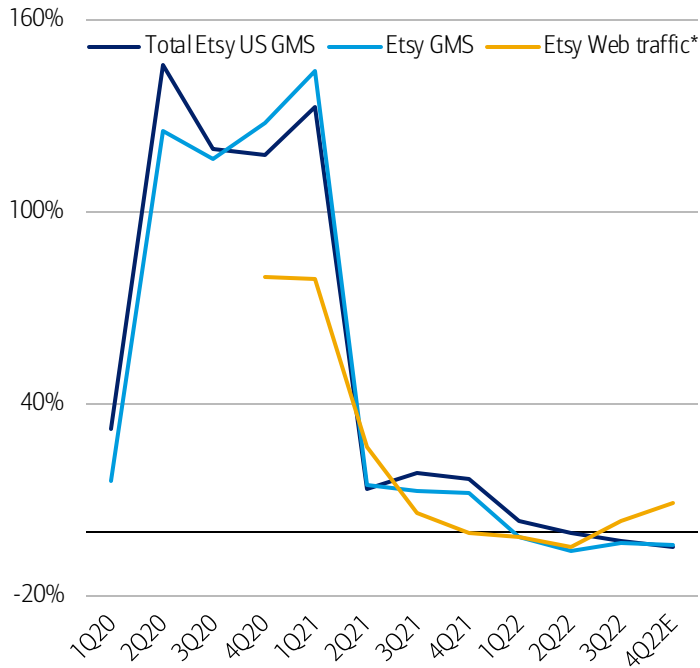




# Outperforming Street expectations, upside possible in 4Q

- Etsy has exceeded Street revenue and EBITDA estimates every quarter since 3Q21
- Despite a tougher macro and a more promotional environment, GMS upside possible in 4Q22
  - Etsy web traffic has accelerated through late November, which could imply higher than expected GMS
  - Etsy promotional activity does not appear to be elevated

ETSY Web traffic vs. GMS (YoY % change)



\*web traffic through November 28<sup>th</sup>

\*\* The average promotional rate is determined by the number of emails sent by a brand or group containing a promotion

Source: Bloomberg, BofA Global Research, MailCharts

Emails Sent by Etsy (as of Nov. 30th)

☒ Historical Trend (Last Year: 2021)

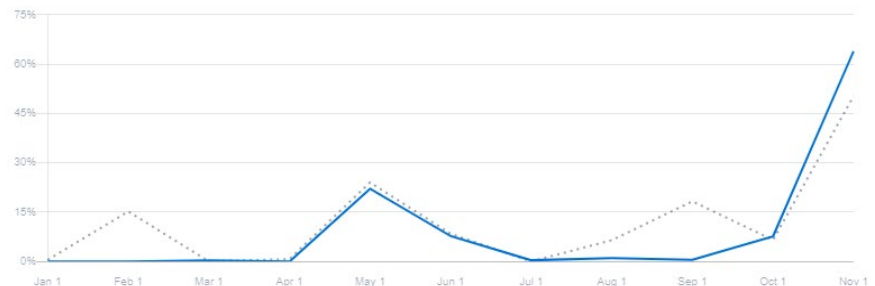
DAILY WEEKLY MONTHLY



Etsy average promotion rate (as of Nov. 30th)\*\*

☒ Historical Trend (Last Year: 2021)

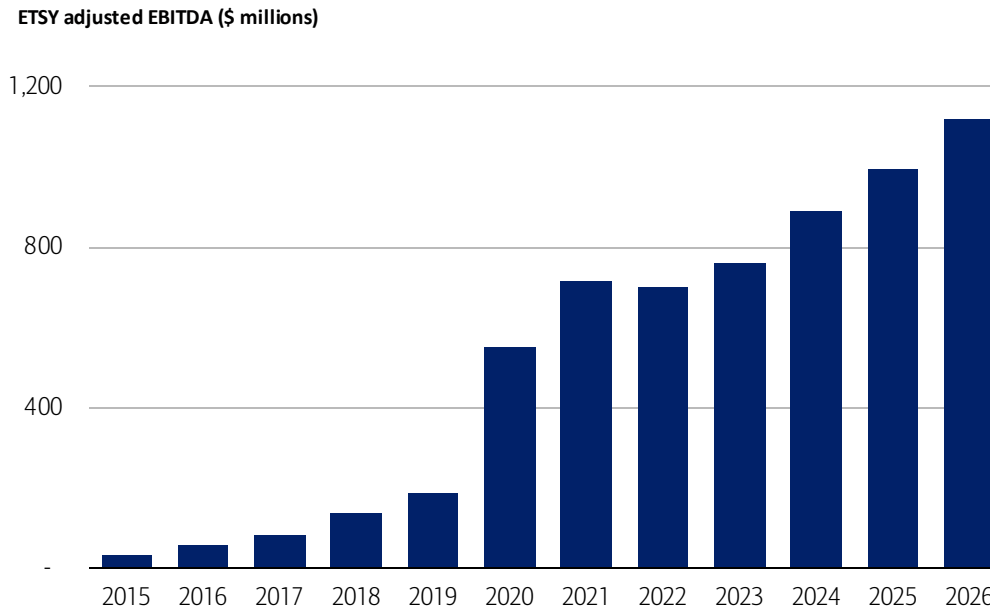
DAILY WEEKLY MONTHLY





# High margin business with durable competitive barriers

- Steady track record for growing earnings and favorable margins relative to other marketplaces
- Advantages of not being the “everything store”
  - Etsy is the largest and best known marketplace that focuses exclusively on unique and handmade goods
  - Low risk around product overlap and pricing since goods sold on Etsy do not have SKUs (stock keeping units). Product uniqueness also likely means that customer expectations for fast shipping are not a high priority
- Sticky seller base with strong network effects

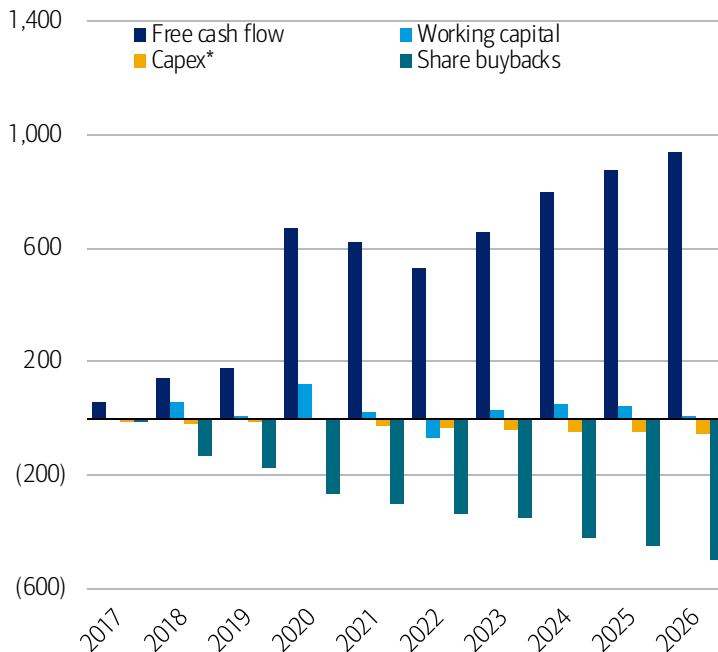




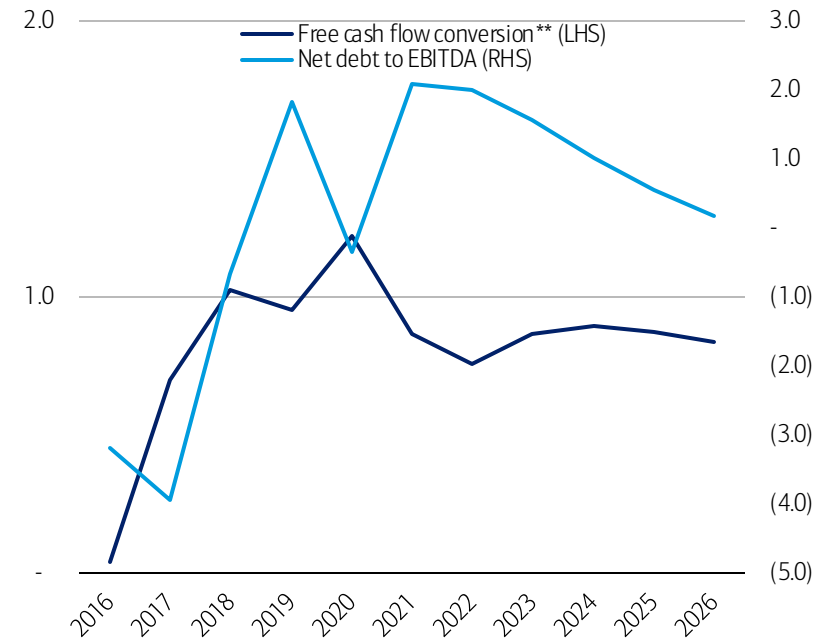
# Solid balance sheet and cash flow generation

- Etsy generates solid free cash flow and has relatively low leverage
- Capital return through buybacks could increase over the next several years
  - Working capital and capex needs are minimal
  - Large acquisitions are unlikely as Etsy is focused on returning acquired companies to growth
  - Next debt maturity isn't until 2026

Etsy capital allocation (\$ millions)



Free cash flow conversion vs. leverage



\*including software development

\*\*free cash flow over adj. adjusted EBITDA

Source: Company reports, BofA Global Research



# Etsy Bear Points

## **GMS is currently negative and macro tougher in 2023**

- Etsy has high exposure to discretionary products
- BofA US economists expect a mild recession to begin in 1Q23

## **Next leg of marketplace scaling may be more difficult**

- Etsy competes across several large product categories and geographies and share is low
- But buyer demographics are concentrated and future gains may be more costly or take longer to develop in the lowest penetration categories and countries

## **Acquisitions a drag on profitability**

- Non-Etsy marketplaces are not growing, are a ~400bp margin headwind and a \$1bn impairment charge was taken in 3Q22
- Senior Etsy management now leading Depop but it competes in a highly competitive and discretionary market

## **Etsy's premium to US eCommerce has widened**

- ETSY trades at 6x 2023 EV/sales vs. a 1.8x average for US eCommerce
- Multiple expansion may be limited as projected growth is below historic levels and macro/consumer risk remains elevated

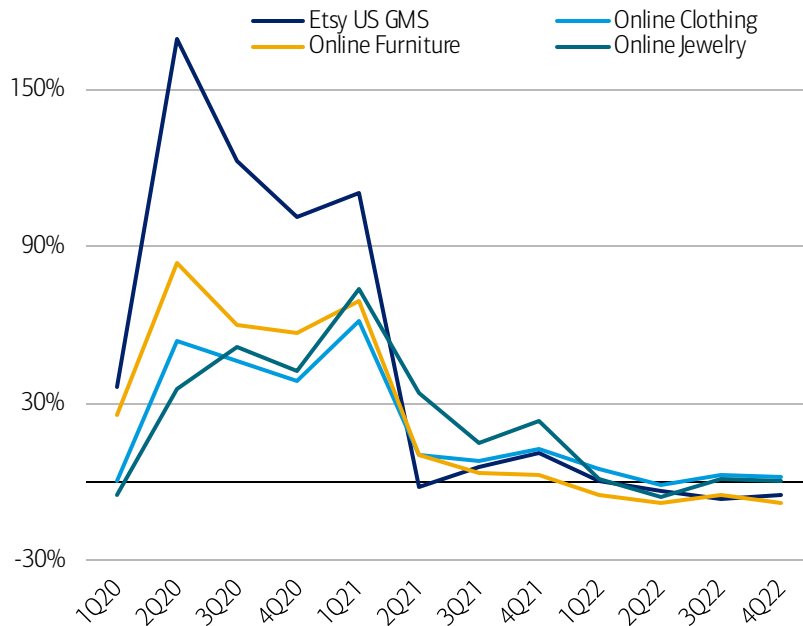




# GMS is currently negative and macro tougher in 2023

- Etsy has high exposure to discretionary products
  - Home goods and furnishings, jewelry and apparel account for ~50% of Etsy's GMS
- BofA US economists expect a mild recession to begin in 1Q23
  - Consumer spending is forecast to be flat in 2023 vs. +2.7% YoY in 2022

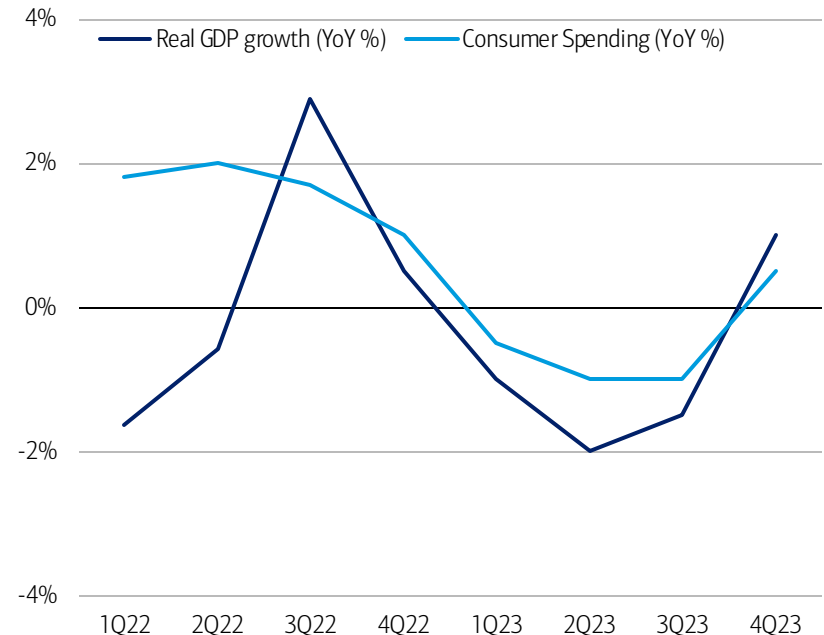
ETSY US GMS growth vs. BAC aggregated debit and credit card spending data for online retailers in Etsy's top product categories\*



\*4Q22 BAC data through November 26<sup>th</sup>; year-over-year growth rate. See the latest [BofA on USA](#) note for an explanation of the methodology, disclaimers and limitations with BAC card data.

Source: Company reports, BofA Global Research, BAC internal data

US real GDP and consumer spending forecasts



Source: BofA Global Research



# Next leg of marketplace scaling may be more difficult

- Etsy competes across several large product categories and geographies
- Share is low across most products which could represent a long runway for growth
  - However, Etsy's customer demographics are concentrated
  - Future gains may be more costly or take longer to develop in low penetration categories and countries

## Share by category

Online-only**	2017	2019	2021	Etsy 2021 share*
Apparel & footwear	120,404	156,428	226,935	0.5%
Furnishings & Housewares	34,789	44,170	79,829	4.1%
Jewelry	15,553	20,121	23,891	9.2%
Beauty and personal care	16,264	21,985	34,720	1.6%
<b>Total</b>	<b>187,009</b>	<b>242,705</b>	<b>365,374</b>	<b>2.0%</b>

## Share by Country

Online-only**	2017	2019	2021	Etsy 2021 share*
United States	115,487	150,735	226,416	2.0%
United Kingdom	20,661	26,409	41,401	2.1%
Germany	21,050	27,151	36,320	2.2%
Canada	6,809	9,951	15,259	2.6%
Australia	5,566	6,080	11,642	2.4%
France	9,967	11,826	16,618	1.2%
<b>Total top six markets</b>	<b>179,541</b>	<b>232,151</b>	<b>347,656</b>	<b>2.7%</b>
India	4,263	6,911	9,891	0.4%
Brazil	3,206	3,644	7,827	0.4%
<b>Total</b>	<b>187,009</b>	<b>232,151</b>	<b>347,656</b>	<b>2.7%</b>

\*Only including Etsy GMS of Apparel & footwear, furnishings & housewares, jewelry, beauty & personal care

\*\*only including top 7 core markets of US, UK, Canada, Germany, France, Australia and India plus Brazil

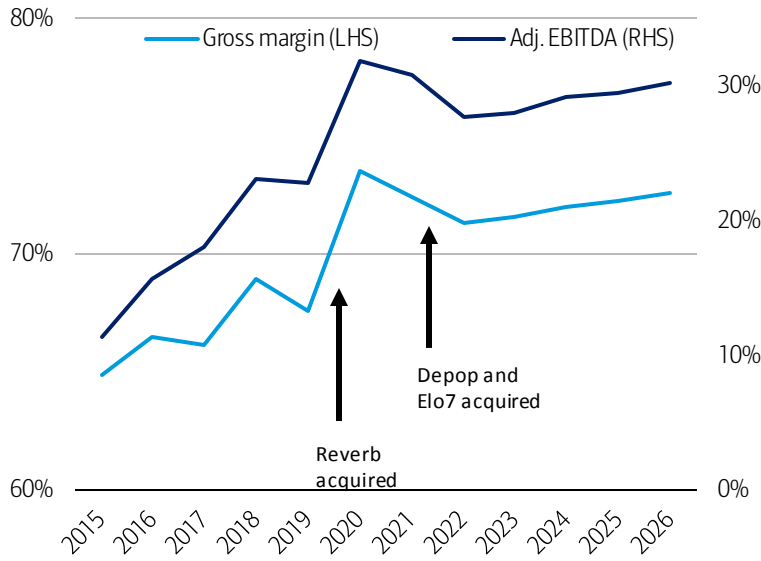
Source: Company reports, Euromonitor, BofA Global Research



# Acquisitions a drag on profitability

- Since 2019 Etsy has spent nearly \$2bn on acquisitions of other marketplaces including Reverb in 2019 and Depop and Elo7 in 2021
- Non-Etsy marketplaces are not growing, are a ~400bp headwind to margins and a \$1bn impairment charge was taken in 3Q22
  - Etsy appointed veteran senior management to turnaround Depop but it competes in the highly competitive and discretionary apparel re-commerce market
  - Elo7 gives Etsy a foothold in Brazil but scalability is a concern

Etsy margin trend



Etsy marketplace portfolio summary

	GMS (\$mn)*	Active buyers**	Active Sellers**	Buyers to sellers	EBTIDA
Reverb	928	847k	210k	4.0	Positive
Depop	564	3.7mn	2.0mn	1.9	Negative
Elo7	63	1.8mn	55k	32.7	Negative
Total non-Etsy	1,556	6.3mn	1.9mn	3.3	
Etsy standalone	11,724	90.1mn	5.3mn	17	Positive

\*estimated 2022 GMS based on disclosures from 2022 10K and reported GMS through 3Q22

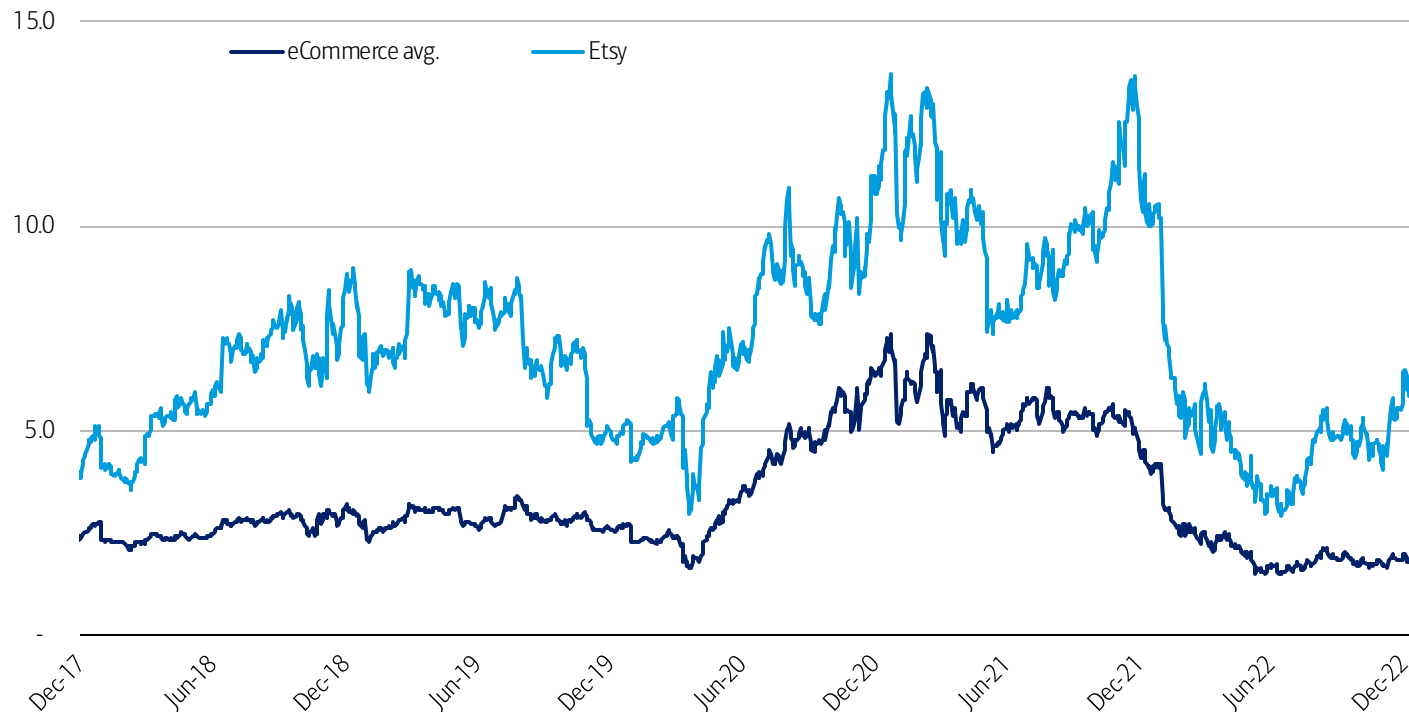
\*\* 2021 year end

Source: Company reports, BofA Global Research



# Etsy's premium to US eCommerce has widened

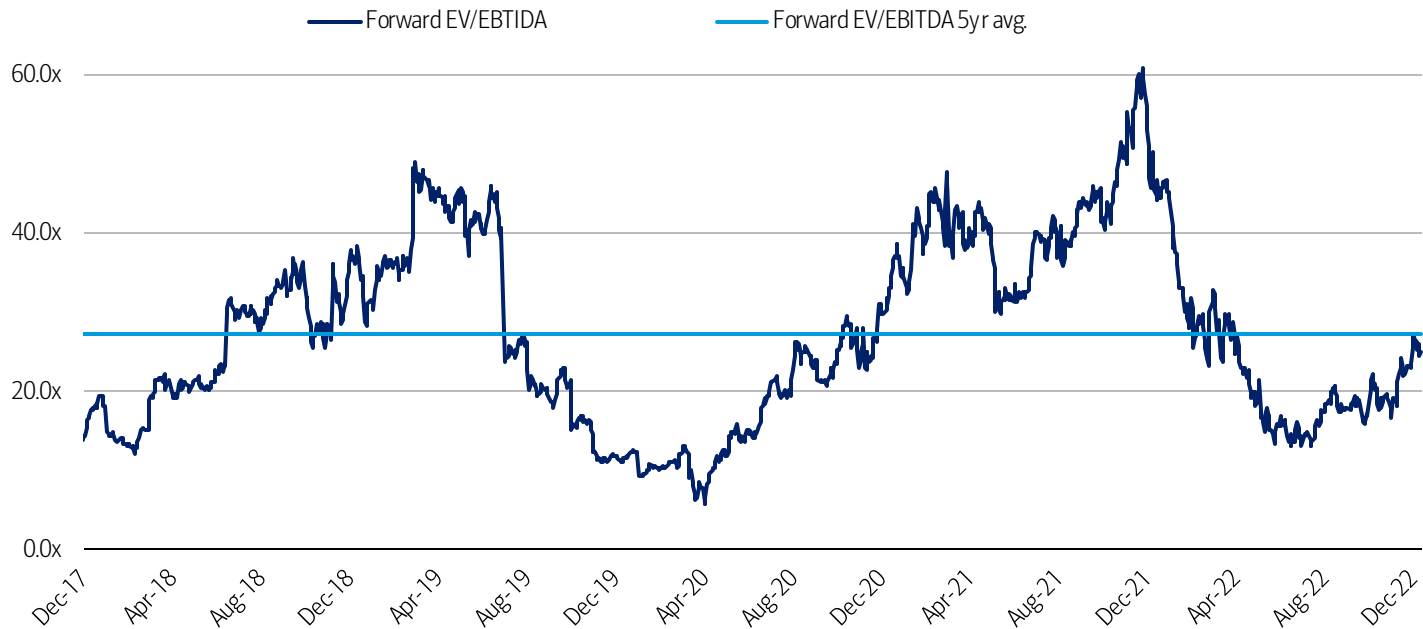
- ETSY trades at 6x 2023 EV/sales vs. a 1.8x average for US eCommerce
- Multiple expansion may be limited as projected growth is below historic levels and macro/consumer risk remains elevated





# Historic EV/EBITDA

- Valuation near historic average
- Forward EV/EBITDA of 25x vs. 27x 5yr average





# Price Objective Basis and Risk

## **Etsy, Inc. (ETSY, \$132.03, C-2-9)**

Our \$145 price objective is based on 24x average 2023/24E EV/EBITDA. This is a discount to Etsy's 5-year average of 27x (ranging from 6x to over 61x). We believe a discount is warranted given lower gross merchandise sales and total revenue growth relative to Etsy's historic average and less potential upside for EBITDA margins. We believe that Etsy should trade at a premium valuation to overall eCommerce and marketplaces due to significantly higher gross and EBITDA margins and high competitive barriers.

Upside risks to our PO are: higher than expected order frequency and average order value due to improvements in search functionality, greater than expected shares gains across underpenetrated customer demographics, regions, and products and increase take-rates from new services and higher fees.

Downside risks to our PO are: weakness in discretionary spending or a recession would likely have an outsized impact on the discretionary products sold on Etsy's marketplaces, continued pressure on GMS growth from lapping tough-COVID related comparisons over the next several quarters and softer than anticipated performance from non-Etsy marketplaces.

# Analyst Certification

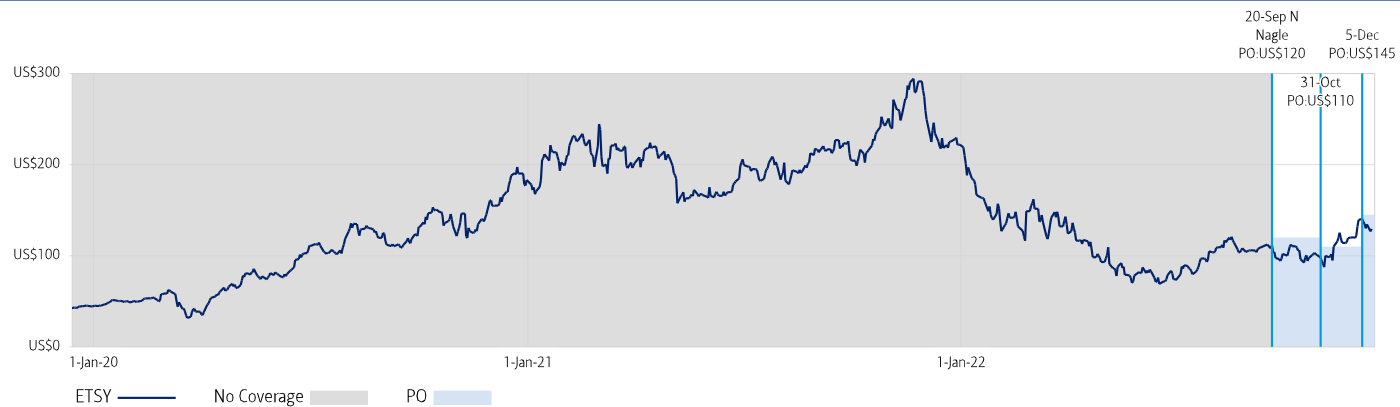


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## Etsy, Inc. (ETSY) Price Chart



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

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	224	53.85%	Buy	128	57.14%
Hold	105	25.24%	Hold	61	58.10%
Sell	87	20.91%	Sell	32	36.78%

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1839	53.46%	Buy	1071	58.24%
Hold	800	23.26%	Hold	498	62.25%
Sell	801	23.28%	Sell	379	47.32%

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

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R1</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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