

Shutterfly

tinyprints.

Lifetouch

# SHUTTERFLY <sup>INC</sup>

Raymond James Institutional Investor Conference

March 4, 2019

*“Helping people share life’s joy”*



# Safe Harbor Disclaimer

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This presentation contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties. These forward-looking statements include statements regarding our focus on achieving cost and revenue synergy between Shutterfly and Lifetouch; our target of combined Company Adjusted EBITDA by 2020; our expectations that the Lifetouch acquisition will significantly increase the Company's overall profitability; the expected value of the depreciable property and equipment; and the timing for aligning Shutterfly's and Lifetouch's accounting policies. You can identify these statements by the use of terminology such as "guidance", "believe", "expect", "will", "should," "could", "estimate", "anticipate" or similar forward-looking terms. You should not rely on these forward-looking statements as they involve risks and uncertainties that may cause actual results to vary materially from the forward-looking statements. Factors that might contribute to such differences include, among others, decreased consumer discretionary spending as a result of general economic conditions; our ability to expand our customer base and increase sales to existing customers; our ability to meet production requirements; our ability to retain and hire necessary employees, including seasonal personnel, and appropriately staff our operations; the impact of seasonality on our business; our ability to develop innovative, new products and services on a timely and cost-effective basis; failure to realize the anticipated benefits of our 2017 restructuring activities or of the Lifetouch acquisition; consumer acceptance of our products and services; our ability to develop additional adjacent lines of business; unforeseen changes in expense levels; competition and the pricing strategies of our competitors, which could lead to pricing pressure; the retention of Lifetouch employees and our ability to successfully integrate the Lifetouch businesses; risks inherent in the achievement of anticipated synergies and the timing thereof; and general economic conditions and changes in laws and regulations. For more information regarding the risks and uncertainties that could cause actual results to differ materially from those expressed or implied in these forward-looking statements, as well as risks relating to our business in general, we refer you to the "Risk Factors" section of our SEC filings, including our most recent Form 10-K and 10-Q, which are available on the Securities and Exchange Commission's Website at [www.sec.gov](http://www.sec.gov). These forward-looking statements are based on current expectations and the company assumes no obligation to update this information.

This presentation includes non-GAAP financial measures, including Adjusted EBITDA, non-GAAP profits/margins, non-GAAP net loss, and non-GAAP net loss per share. We define Adjusted EBITDA as earnings before interest, taxes, depreciation, amortization, stock-based compensation, restructuring, and acquisition-related costs. The method we use to produce non-GAAP financial measures is not computed according to GAAP and may differ from the methods used by other companies. To supplement our consolidated financial statements presented on a GAAP basis, we believe that these non-GAAP measures provide useful information about our core operating results and thus are appropriate to enhance the overall understanding of our past financial performance and our prospects for the future. These adjustments to our GAAP results are made with the intent of providing both management and investors a more complete understanding of our underlying operational results and trends and performance. Management uses these non-GAAP measures to evaluate our financial results, develop budgets, manage expenditures, and determine employee compensation. The presentation of additional information is not meant to be considered in isolation or as a substitute for, or superior to, gross profit, net income (loss) or net income (loss) per share determined in accordance with GAAP. Management strongly encourages review of our financial statements and publicly-filed reports in their entirety and to not rely on any single financial measure.

## Investment Highlights

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- **Unique digital e-commerce business** with scale, powerful brand and clear leadership position (\$2B+ business with three large segments)
- **Focus on differentiated personalized products** with investments in new large and growing categories
- **Vertical integration and technology capabilities provide competitive advantage** and create barriers for new entrants to scale profitably
- **Attractive business model** featuring large repeat customer base, strong EBITDA and cash flow generation
- Opportunities to create value through **organic growth initiatives**, and **synergies** between Shutterfly-Lifetouch

# Fully Scaled Leading Digital E-Commerce Business



**Significant Scale**

**\$2.1B Revenue**



**Track Record of Profit Growth**

**\$350M EBITDA**



**Consistent Cash Flow  
Generation**

**\$180M Free Cash Flow**

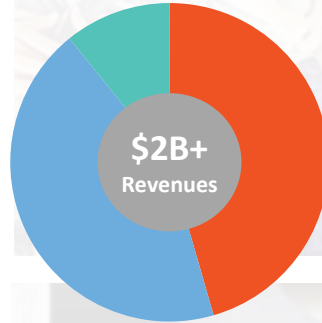


# SHUTTERFLY <sup>INC</sup> Today

Leading consumer franchise paired with high-growth enterprise opportunity

## Consumer:

- Leading retailer of personalized photo-based products
- Fully scaled market leader, 5x+ next largest competitor
- 50B hosted photos
- 10M customers placing 24M orders annually
- \$41 AOV



## Enterprise:

- Commercial digital printing services
- Enables efficient and effective customer engagement
- Leverage in-house manufacturing capability

## Lifetouch:

- Leading national brand in school photography
- 50K+ schools served; 25+ million children photographed
- Four Business Units: Schools, Pre-schools, Church and Studios
- 25x+ next largest competitor

## US Enterprise Print Industry

\$100B  
Enterprise Print

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\$10B  
Digital Print

# Shutterfly Brands and Products – Consumer

Consumer Brands

# Shutterfly.

Leading retailer of personalized photo-based products

The Shutterfly brand brings photos to life in photo book, gifts, home décor, and cards and stationery

**Cards and Stationery**

Shutterfly.  
tinyprints



**Personalized Gifts / Home Decor**

Shutterfly



**Photo Books**  
Shutterfly

**Product Categories**



**Prints**  
Shutterfly



**Calendars**  
Shutterfly

# Shutterfly Consumer: Looking Ahead

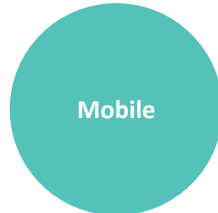
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## Core: Paper-based products

- › Most categories with stable to modestly increasing growth
- › Long term loyal customers
- › Consistent growth from increased revenue per customer

## Gifts, décor, and new categories (PGHD)

- › Growth has re-accelerated; Have sustained faster growth for years
- › No secular growth constraints given large TAM
- › Category expansion and accelerated pace of product introduction drive growth
- › Expect these categories to significantly outpace the core



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The single biggest opportunity for Shutterfly Consumer is step-changing the customer base driven by Lifetouch customer acquisition

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# Lifetouch: Clear Competitive Advantage and Scale

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- School and portrait photography
- Four business units: Schools, Pre-schools, Church and Studios
- ~\$930M in revenue
- 25M+ children in 50K+ schools
- 1M+ new kindergarten households per year
- 10M+ total households



# Lifetouch Brands and Offerings



## School

72%

50,000+

schools served

10 million+

households served

25 million+

students photographed



## Pre-school

7%

24,000

centers served

65%

served 2x annually

2,500,000

sessions photographed



## Studio

13%

1.2M

sessions

450

studios

47

states



## Church

8%

7,500

churches served

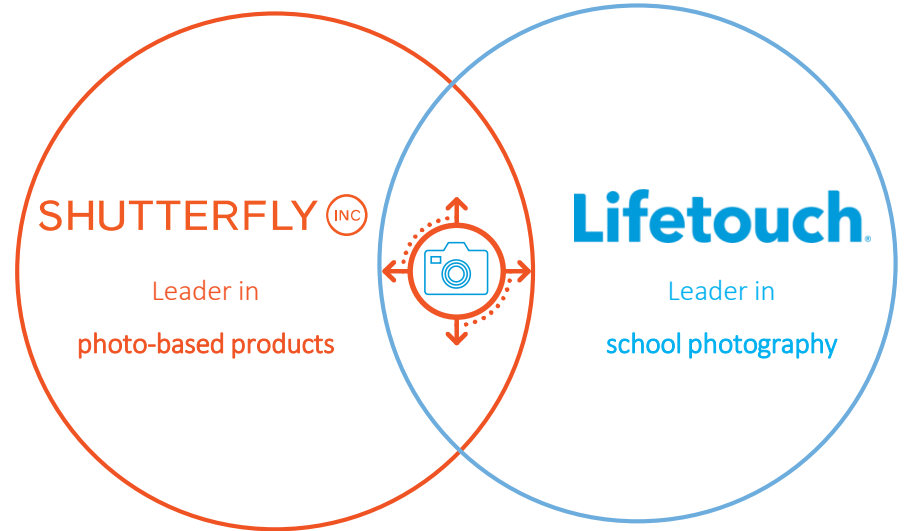
600,000

Sessions photographed

# Shutterfly + Lifetouch

## Value-creation Opportunities:

1. Gaining access to many Lifetouch customers as Shutterfly customers.
2. Growing revenue per Lifetouch customer through online ordering improvements and cross-selling Shutterfly products.
3. Recognizing significant supply chain, manufacturing and fulfillment synergies (i.e. Project Aspen).



Significant value creation over next few years from revenue and cost synergies.

# Shutterfly Business Solutions (SBS): Today

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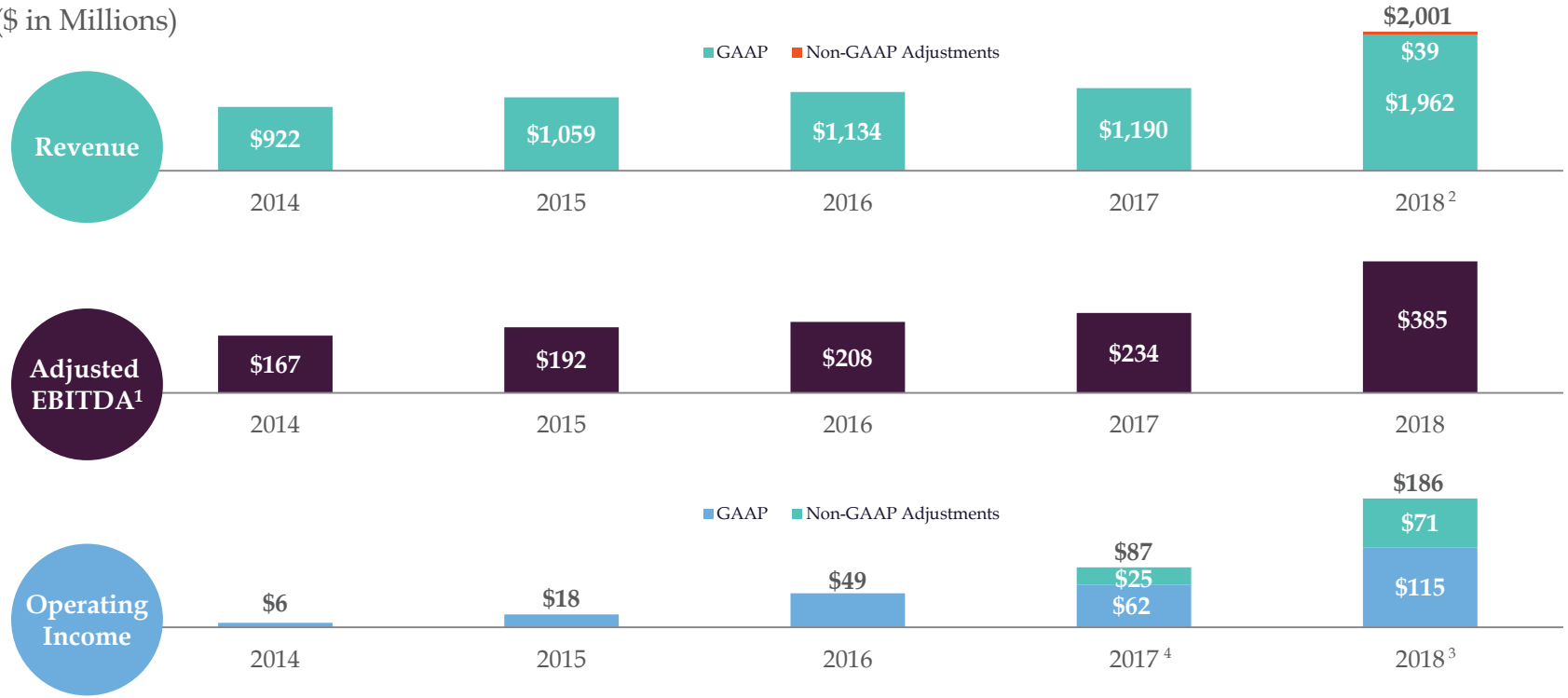
- Commercial digital printing services
- ~\$230M in revenue
- Enables efficient and effective customer engagement
- Personalized communications at scale
- Leverages first and third-party manufacturing capabilities

# Medium-term Revenue Growth Outlook

<b>Segment</b>	<b>Growth Range</b>	<b>Levers</b>
Core	2% - 4%	Pricing & promotions, mobile, simplification, automated product creation, personalized marketing, brand marketing
PGHD/New Categories	8% - 12%	All of the above plus category and range expansion
<b>SFLY Consumer</b>	<b>3% - 6%</b>	
<b>Lifetouch</b>	0% - 3%	Participation rate, account growth, online ordering, consumer marketing, revenue yield
<b>SBS</b>	5% - 15%	New customers and expansion with existing customers
<b>Total before synergies</b>	2% - 5%	
<b>Lifetouch Revenue Synergies*</b>	\$50+ million	Cost-efficient new customer growth
<b>Total</b>	<b>3% - 7%</b>	

# Historical Financial Overview

(\$ in Millions)



<sup>1</sup>Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization and stock-based compensation. Please see our SEC filings on Form 10-K for reconciliations.

<sup>2</sup>2018 Revenue normalized for purchase accounting adjustments related to the write-down of deferred revenue of \$39 million.

<sup>3</sup>2018 Operating Income normalized for acquisition-related charges of \$16 million, purchase accounting adjustments related to the write-down of deferred revenue of \$39 million, write-up of inventory of \$11 million, write-down of deferred rent of \$0.3 million, restructuring charges of \$4.6 million

<sup>4</sup>2017 Operating Income normalized for restructuring charges of \$17 million, capital lease termination charges of \$8.1 million.



## 2019 Guidance

(\$ in Millions)	<u>Low</u>	<u>Mid</u>	<u>High</u>
<b>Shutterfly Consumer</b>	\$975	\$1,000	\$1,025
<i>YoY Growth</i>	0.31%	2.80%	5.17%
<b>Lifetouch</b>	\$915	\$925	\$935
<b>SBS</b>	\$240	\$245	\$250
<i>YoY Growth</i>	3.75%	5.71%	7.60%
<b>Net Revenue</b>	\$2,130	\$2,170	\$2,210
<i>YoY Growth</i>	6.06%	7.79%	9.46%
<b>Operating Income</b>	\$76	\$89	\$101
<b>Adjusted EBITDA</b>	\$315	\$328	\$340

<sup>1</sup> Excludes any costs related to executive transition, the strategic review, the facility closures in 2019, and any non-recurring charges related to the \$200 million debt repayment made in January 2019. It also excludes any proceeds from the sale of existing facilities.

<sup>2</sup> The Company's business outlook is composed entirely of non-GAAP measures. The Company considers it unreasonably difficult to reconcile its outlook to comparable GAAP measures.

<sup>3</sup> Adjusted EBITDA is a Non-GAAP measure defined as earnings before interest, taxes, depreciation, amortization, stock-based compensation, restructuring, and acquisition-related costs.

# Lifetouch Customer has more than 11M non-overlapping Customers

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## 3-Year Lifetouch Customer Estimate

**15.4M** Unique email addresses

+

**???** Estimated unique paper-buying customers

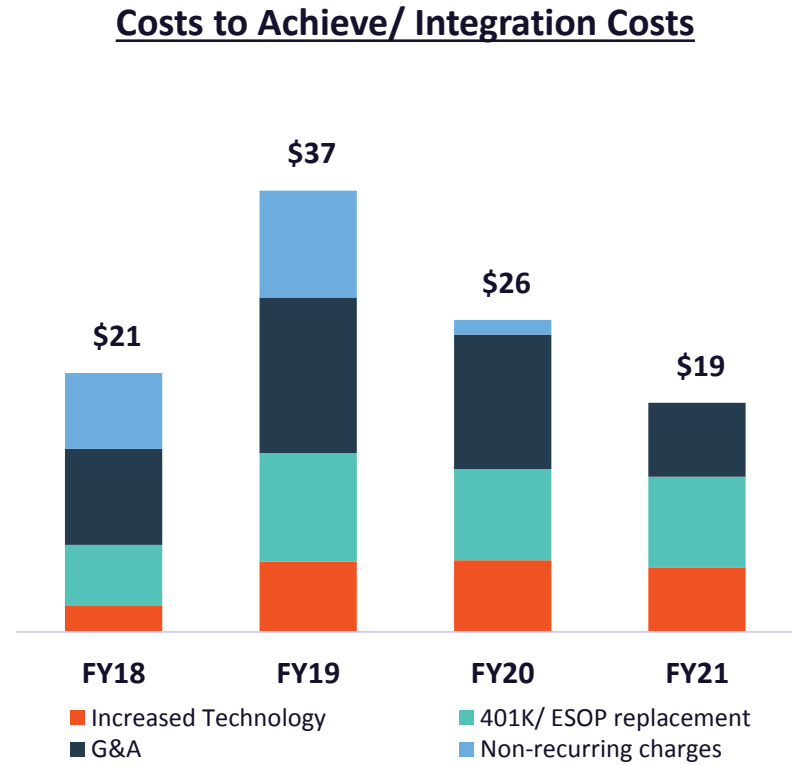
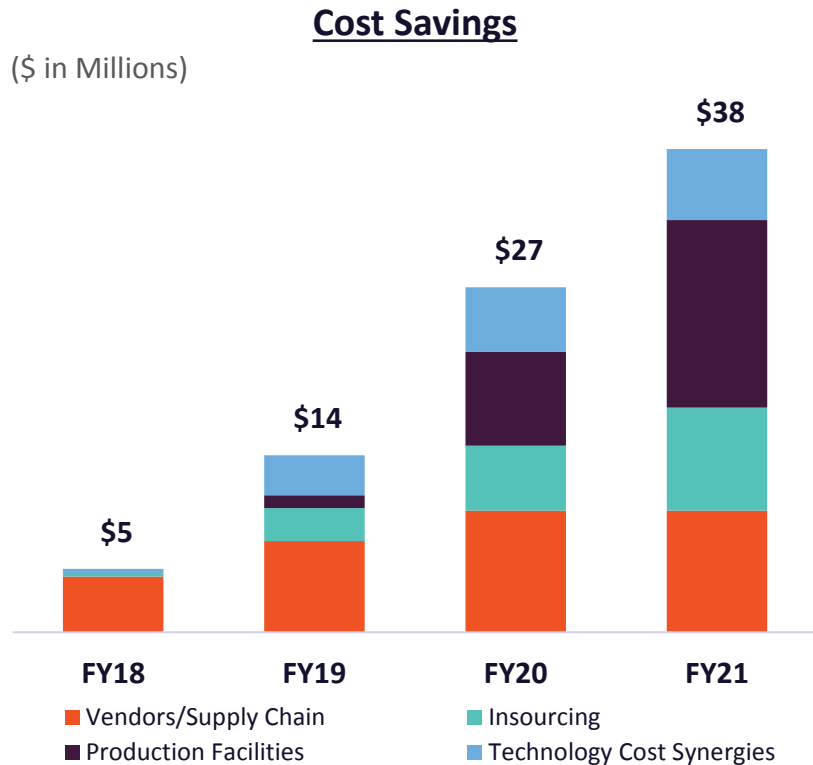
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**15-25M** Total estimated Lifetouch 3-year actives

**27.2%** 3-year digital buyer overlap between  
Lifetouch and Shutterfly \*

**11-18M** Estimated non-overlap 3-year Actives

# Cost Synergies and Integration



## 2021 Adjusted EBITDA Target Range

(\$ Millions)	2021 Adjusted EBITDA Range <sup>1</sup>	
	Low-End	High-End
FY19 Guidance Range	\$315	\$340
Incremental manufacturing cost synergies (between 2019 and 2020)	\$24	\$24
Reduced integration costs (between 2019 and 2021)	\$18	\$18
	<b>\$357</b>	<b>\$382</b>
Baseline revenue growth (2020 and 2021) <sup>2</sup>	\$19	\$35
Revenue synergies (2020 and 2021) <sup>3</sup>	\$25	\$33
<b>2021 Adjusted EBITDA Range</b>	<b>\$400</b>	<b>\$450</b>

**Notes:**

<sup>1</sup>The Company's 2021 Adjusted EBITDA outlook is composed entirely of non-GAAP measures. The Company considers it unreasonably difficult to reconcile its outlook to comparable GAAP measures.

<sup>2</sup>Baseline revenue growth rate 3%-5% per year.

<sup>3</sup>Assumes \$50 million - \$65 million of revenue synergies at a 50% contribution margin.