

Shutterfly Announces Fourth Quarter and Full Year 2014 Financial Results

- Fourth Quarter 2014 net revenues increase 18% year-over-year to \$483.3 million
- Full Year 2014 net revenues increase 18% year-over-year to \$921.6 million
- Full Year 2014 GAAP net loss of (\$0.20) per diluted share
- Record Full Year adjusted EBITDA of \$166.8 million, an increase of 11% year-over-year
- 56th consecutive quarter of year-over-year net revenue growth

REDWOOD CITY, Calif.--(BUSINESS WIRE)-- Shutterfly, Inc. (NASDAQ:SFLY), the leading manufacturer and digital retailer of high-quality personalized products and services offered through a family of lifestyle brands, today announced financial results for the fourth quarter and full year-ended December 31, 2014.

"2014 was another outstanding year for Shutterfly," said Jeffrey Housenbold, President and CEO of Shutterfly. "We delivered record results for revenue, adjusted EBITDA, and free cash flow, and we also returned nearly \$90 million of capital back to our shareholders through our share repurchase plan. We continue to thoughtfully balance our strategic investments across our multiple objectives of gaining market share, widening our competitive moat, and driving continuous innovation to deliver increased shareholder value over both the short and long term."

Fourth Quarter 2014 Financial Highlights

- Net revenues totaled \$483.3 million, an 18% year-over-year increase.
- Fourth quarter 2014 represents the 56th consecutive quarter of year-over-year net revenue growth.
- Consumer net revenues totaled \$462.9 million, a 16% year-over-year increase.
- Enterprise net revenues totaled \$20.4 million, a 67% year-over-year increase.
- Gross profit margin was 58% of net revenues, compared to 60% in the fourth quarter of 2013.
- Consumer gross profit margin was 60.7% of net revenues. ⁽¹⁾
- Enterprise gross profit margin was 12.9% of net revenues. ⁽¹⁾
- Operating expenses, excluding \$16.4 million of stock-based compensation, totaled \$143.1 million.
- GAAP net income was \$99.7 million, compared to \$43.6 million in the fourth quarter of 2013.
- GAAP net income per diluted share was \$2.51, compared to \$1.10 in the fourth quarter of 2013.
- Non-GAAP net income per diluted share was \$2.57, compared to \$1.20 in the fourth quarter of 2013.
- Adjusted EBITDA was \$164.6 million, compared to \$141.9 million in the fourth quarter of 2013.
- At December 31, 2014, cash and investments totaled \$475.3 million.

Full Year 2014 Financial Highlights

- Net revenues totaled \$921.6 million, an 18% year-over-year increase.
- Consumer net revenues totaled \$871.0 million, a 17% year-over-year increase.
- Enterprise net revenues totaled \$50.6 million, a 34% year-over-year increase.
- Gross profit margin was 50.9% of net revenues, compared to 52.8% in 2013.
- Consumer gross profit margin was 54.7% of net revenues. ⁽¹⁾
- Enterprise gross profit margin was 14.2% of net revenues. ⁽¹⁾
- Operating expenses, excluding \$58.1 million of stock-based compensation, totaled \$404.5 million.
- GAAP net loss was (\$7.9) million, compared to GAAP net income of \$9.3 million in 2013.
- GAAP net loss per diluted share was (\$0.20), compared to GAAP net income per diluted share of \$0.24 in 2013.
- Non-GAAP net income per diluted share was \$0.07, compared to \$0.38 in 2013.
- Adjusted EBITDA was \$166.8 million, compared to \$150.4 million in 2013.
- During 2014, the Company repurchased approximately 2.0 million shares for a total repurchase amount of \$88.8 million.

⁽¹⁾ Effective in the fourth quarter of 2014, the Company defined two reportable segments based on factors such as how management manages the operations and how the chief operating decision maker views results. The Company's two reportable segments are Consumer and Enterprise. Refer to the Segment Disclosure table at the back of the release for segment level disclosures.

Fourth Quarter 2014 Consumer Operating Metrics

- Transacting customers totaled 5.7 million, a 22% year-over-year increase.
- Orders totaled 9.6 million, a 25% year-over-year increase.
- Average order value was \$48.26, a decrease of 7% year-over-year.
- Average order value without the impact of the Groovebook acquisition was \$51.55, in line with the same period in 2013.

Full Year 2014 Consumer Operating Metrics

- Transacting customers totaled 9.2 million, a 14% year-over-year increase.
- Orders totaled 21.8 million, a 17% year-over-year increase.
- Average order value was \$40.00, in line with the same period in 2013.
- Average order value without the impact of the Groovebook acquisition was \$41.14, an increase of 2% year-over-year.

Jeffrey Housenbold continued: "Today, we are also announcing a series of strategic initiatives to drive increased scale efficiencies and operating margins from the consolidation of several of our technology platforms, the closure of our sub-scale Elmsford manufacturing facility, and the shutdown of our Treat brand."

2015 Strategic Initiatives and Business Outlook

Shutterfly announces the following 2015 strategic initiatives:

- Shutterfly will begin a 15 to 18 month process to build the next generation of Shutterfly: a world-class memory management service connected to our personalized e-commerce solutions.
- The next generation of Shutterfly will incorporate our ThisLife service directly into Shutterfly.com and consolidate our ThisLife and Shutterfly mobile apps, which is intended to accelerate the rate of adoption of ThisLife's features and functionality, and drive greater usage and monetization of the service.
- This effort will also include the migration of the Tiny Prints and Wedding Paper Divas brand technology platforms onto the Shutterfly brand platform, creating a single e-commerce system. We will continue to invest in the Tiny Prints and Wedding Paper Divas brands, but through a common set of shared technology services.
- Shutterfly will discontinue the Treat brand and migrate our one-to-one greeting offering to the Shutterfly brand by the end of the first quarter of 2015.
- Beginning on March 18, customers will no longer be able to place an order on Treat.com or access the Treat mobile app. However, they will be redirected to Shutterfly.com where we will enhance the one-to-one card experience under our flagship brand identity.
- Shutterfly will close its MyPublisher brand manufacturing facility located in Elmsford, NY and redirect all production and customer service operations throughout the Shutterfly manufacturing network by the end of third quarter of 2015.
- In all, these strategic restructurings will reduce long term operating costs, consolidate our development efforts against a single technology platform, and further leverage our primary manufacturing centers.

The full year 2015 Adjusted EBITDA Guidance below incorporates one-time pretax non-recurring restructuring charges related to these strategic initiatives of between \$10 million to \$12 million.

First Quarter 2015:

- Net revenues to range from \$153.0 million to \$157.0 million, a year-over-year increase of 11.6% to 14.5%.
- GAAP gross profit margin to range from 39.1% to 40.0% of net revenues.
- Non-GAAP gross profit margin to range from 41.7% to 42.6% of net revenues.
- GAAP operating loss to range from (\$53.3) million to (\$53.5) million.
- Non-GAAP operating loss to be approximately (\$27.4) million.
- GAAP effective tax rate to range from 5.0% to 16.0%.
- GAAP net loss per diluted share to range from (\$1.27) to (\$1.45).
- Non-GAAP net loss per diluted share to range from (\$1.20) to (\$1.36).
- Weighted average diluted shares of approximately 38.2 million.
- Adjusted EBITDA loss to range from (\$5.2) million to (\$7.2) million.

Full Year 2015:

- Net revenues to range from \$1,040.0 million to \$1,060.0 million, a year-over-year increase of 12.8% to 15.0%.
- GAAP gross profit margin to range from 49.0% to 50.5% of net revenues.

- Non-GAAP gross profit margin to range from 50.1% to 51.6% of net revenues.
- GAAP operating income to range from \$0.5 million to \$7.5 million.
- Non-GAAP operating income to range from \$96.0 million to \$104.0 million.
- GAAP effective tax rate to range from 5% to 16%.
- GAAP net loss per diluted share to range from (\$0.31) to (\$0.43).
- Non-GAAP net income / (loss) per diluted share to range from (\$0.12) to \$0.04.
- Weighted average diluted shares of approximately 38.9 million.
- Adjusted EBITDA to range from \$182.0 million to \$192.0 million, or 17.5% to 18.1% of net revenues.
- Adjusted EBITDA, excluding the effects of pre-tax non-recurring restructuring charges to range from \$192.0 million to \$204.0 million, or 18.5% to 19.2% of net revenues.
- Capital expenditures to range from 8.6% to 9.2% of net revenues a reduction from 9.8% of net revenues in 2014.

The foregoing financial guidance replaces any of the Company's previously issued financial guidance which should no longer be relied upon.

Share Repurchase Program

The Company also announced that its Board of Directors has authorized and its Audit Committee has approved a share repurchase program granting the Company authority to repurchase up to \$300 million of outstanding Shutterfly common stock, in addition to amounts remaining under our previously announced and expanded program. The repurchase program authorizes Shutterfly to buy its common stock from time to time through open market, privately negotiated or other transactions, including pursuant to trading plans established in accordance with Rules 10b5-1 and 10b-18 of the Securities Exchange Act of 1934, as amended, or by a combination of such methods. The share repurchase program is subject to prevailing market conditions and other considerations; does not require the Company to repurchase any dollar amount or number of shares; and may be suspended or discontinued at any time.

Notes to the Fourth Quarter 2014 and Full Year 2014 Financial Results and Operating Metrics and 2015 Business Outlook

Adjusted EBITDA is a non-GAAP financial measure that the Company defines as earnings before interest, taxes, depreciation, amortization and stock-based compensation.

Free cash flow is a non-GAAP financial measure that the Company defines as adjusted EBITDA less purchases of property, plant, and equipment and capitalization of software development costs.

Non-GAAP earnings per share is defined as non-GAAP net income (loss), which excludes interest expense related to the Company's issuance of 0.25% convertible senior notes in May 2013, divided by diluted non-GAAP shares outstanding, which is GAAP diluted weighted average shares outstanding less any shares issuable under the Company's convertible senior notes.

Consumer segment includes net revenues from stationery and greeting cards, photo books, calendars and photo-based merchandise, photo prints, and the related shipping revenues and rental revenue. Consumer also includes net revenues from advertising and sponsorship programs.

Enterprise segment includes net revenues primarily from variable, four-color direct marketing collateral manufactured and fulfilled for business customers.

Average Order Value (AOV) is defined as total net revenues (excluding Enterprise) divided by total orders.

Fourth Quarter and Full Year 2014 Conference Call

Management will review the fourth quarter and full year 2014 financial results and its expectations for the first quarter and full year 2015 on a conference call on Thursday, February 12, 2015 at 2:00 p.m. Pacific Time (5:00 p.m. Eastern Time). To listen to the call and view the accompanying slides, please visit <http://www.shutterflyinc.com>. In the Investor Relations area click on the link provided for the webcast, or dial (970) 315-0490. The webcast, as well as a podcast, will be archived and available at <http://www.shutterflyinc.com>. A replay of the conference call will be available through Thursday, February 26, 2015. To hear the replay, please dial (855) 859-2056 or (404) 537-3406, replay passcode 76983967.

Non-GAAP Financial Information

This press release contains certain non-GAAP financial measures. Tables are provided at the end of this press release that reconcile the non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with Generally Accepted Accounting Principles (GAAP). These non-GAAP financial measures include non-GAAP gross profit margins, non-GAAP operating income (loss) and the related operating income (loss) margins, adjusted EBITDA, free cash flow, and non-GAAP net income (loss) per share. The method the Company uses to produce non-GAAP financial measures is not computed according to GAAP and may differ from methods used by other companies.

To supplement the Company's consolidated financial statements presented on a GAAP basis, we believe that these non-GAAP measures provide useful information about the Company's core operating results and thus are appropriate to enhance the overall understanding of the Company's past financial performance and its prospects for the future. These adjustments to the Company's GAAP results are made with the intent of providing both management and investors a more complete understanding of the Company's underlying operational results and trends and performance. Management uses these non-GAAP measures to evaluate the Company's 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 margins, operating income (loss), net income (loss) or net income (loss) per share determined in accordance with GAAP. For more information, please see Shutterfly's SEC Filings, including the most recent Form 10-K and Form 10-Q, which are available on the Securities and

Exchange Commission's Web site at www.sec.gov.

Notice Regarding Forward-Looking Statements

This media release 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, which involve risks and uncertainties. These forward-looking statements include statements regarding the Company's business objectives, 2015 strategic initiatives and financial expectations for the first quarter and full year 2015 set forth under the caption "2015 Strategic Initiatives and Business Outlook" and its share repurchase program. The Company's actual results may differ materially from those anticipated in these forward-looking statements. Factors that might contribute to such differences include, among others, economic downturns and the general state of the economy; decreased consumer discretionary spending as a result of the macroeconomic environment; our ability to expand our customer base and increase sales to existing customers; our ability to meet production requirements; unanticipated delays in our ability to build our next generation Shutterfly platform; unforeseen difficulties executing on our strategic restructuring activities, our ability to successfully integrate acquired businesses and assets; 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; consumer acceptance of our products and services; our ability to develop additional adjacent lines of business; unforeseen changes in expense levels; and competition and the pricing strategies of our competitors, which could lead to pricing pressure. 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 the Company's most recent Form 10-K and Form 10-Q, and the Company's other filings, which are available on the Securities and Exchange Commission's Web site at www.sec.gov. These forward-looking statements are based on current expectations and the Company assumes no obligation to update this information.

About Shutterfly, Inc.

Shutterfly, Inc. is the leading manufacturer and digital retailer of high-quality personalized products and services offered through a family of lifestyle brands. Founded in 1999, the Shutterfly, Inc. family of brands includes [Shutterfly](#), where your photos come to life in photo books, cards and gifts; [Tiny Prints](#), premium cards and stationery for all life's occasions; [Wedding Paper Divas](#), wedding invitations and stationery for every step of the planning process; [Treat](#), personalized greeting cards that really stand out; [MyPublisher](#), one of the pioneers in the photo book industry and creator of easy-to-use photo book-making software; [ThisLife](#), a private, cloud-based solution that makes it easy for consumers to find, share and enjoy their photos and videos, all in one place; and [BorrowLenses](#), the premier online marketplace for photographic and video equipment rentals. For more information about Shutterfly, Inc. (NASDAQ:SFLY), visit www.shutterflyinc.com.

Shutterfly, Inc.

Consolidated Statements of Operations (In thousands, except per share amounts) (Unaudited)

| | Three Months Ended | | Twelve Months Ended | |
|---|----------------------|----------------------|----------------------|----------------------|
| | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 |
| Net revenues | \$ 483,325 | \$ 410,788 | \$ 921,580 | \$ 783,642 |
| Cost of net revenues | 203,316 | 164,716 | 452,720 | 369,593 |
| Gross profit | 280,009 | 246,072 | 468,860 | 414,049 |
| Operating expenses: | | | | |
| Technology and development | 36,521 | 30,963 | 133,623 | 108,995 |
| Sales and marketing | 87,340 | 80,039 | 216,035 | 189,985 |
| General and administrative | 35,668 | 30,493 | 112,957 | 93,011 |
| Total operating expenses | 159,529 | 141,495 | 462,615 | 391,991 |
| Income from operations | 120,480 | 104,577 | 6,245 | 22,058 |
| Interest expense | (4,548) | (3,762) | (16,732) | (9,446) |
| Interest and other income, net | 125 | 127 | 508 | 308 |
| Income/(loss) before income taxes | 116,057 | 100,942 | (9,979) | 12,920 |
| Benefit from/(provision for) income taxes | (16,407) | (57,293) | 2,119 | (3,635) |
| Net income/(loss) | \$ 99,650 | \$ 43,649 | \$ (7,860) | \$ 9,285 |
| Net income/(loss) per share | | | | |
| Basic | \$ 2.59 | \$ 1.15 | \$ (0.20) | \$ 0.25 |
| Diluted | \$ 2.51 | \$ 1.10 | \$ (0.20) | \$ 0.24 |
| Weighted-average shares outstanding | | | | |
| Basic | 38,412 | 38,097 | 38,452 | 37,680 |
| Diluted | 39,631 | 39,713 | 38,452 | 39,493 |

Stock-based compensation is allocated as follows:

| | | | | |
|----------------------------|--------|--------|----------|----------|
| Cost of net revenues | \$ 875 | \$ 683 | \$ 3,657 | \$ 2,485 |
| Technology and development | 3,040 | 2,634 | 9,236 | 9,477 |
| Sales and marketing | 5,833 | 5,744 | 22,670 | 19,774 |

| | | | | |
|----------------------------|------------------|------------------|------------------|------------------|
| General and administrative | 7,520 | 6,298 | 26,199 | 21,792 |
| | <u>\$ 17,268</u> | <u>\$ 15,359</u> | <u>\$ 61,762</u> | <u>\$ 53,528</u> |

Shutterfly, Inc.
Consolidated Balance Sheets
(In thousands, except par value amounts)
(Unaudited)

| | December 31, December 31, | |
|--|----------------------------------|---------------------|
| | 2014 | 2013 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 380,543 | \$ 499,084 |
| Short-term investments | 64,866 | - |
| Accounts receivable, net | 31,105 | 21,641 |
| Inventories | 13,016 | 9,629 |
| Deferred tax asset, current portion | 34,645 | 26,942 |
| Prepaid expenses and other current assets | 24,983 | 21,260 |
| Total current assets | <u>549,158</u> | <u>578,556</u> |
| Long-term investments | 29,928 | - |
| Property and equipment, net | 241,742 | 155,727 |
| Intangible assets, net | 87,950 | 118,621 |
| Goodwill | 408,975 | 397,306 |
| Deferred tax asset, net of current portion | 549 | 520 |
| Other assets | 13,976 | 15,412 |
| Total assets | <u>\$ 1,332,278</u> | <u>\$ 1,266,142</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---------------------|---------------------|
| Current liabilities: | | |
| Accounts payable | \$ 30,086 | \$ 33,656 |
| Accrued liabilities | 135,485 | 107,448 |
| Deferred revenue | 31,415 | 24,114 |
| Total current liabilities | <u>196,986</u> | <u>165,218</u> |
| Convertible senior notes, net | 255,218 | 243,493 |
| Deferred tax liability | 48,090 | 42,995 |
| Other liabilities | 74,178 | 26,341 |
| Total liabilities | <u>574,472</u> | <u>478,047</u> |
| Stockholders' equity: | | |
| Common stock, \$0.0001 par value; 100,000 shares authorized; 37,906 and 38,196 shares issued and outstanding at December 31, 2014 and December 31, 2013, respectively | 4 | 4 |
| Additional paid-in-capital | 838,313 | 771,875 |
| Accumulated other comprehensive loss | (53) | - |
| Accumulated earnings/(deficit) | (80,458) | 16,216 |
| Total stockholders' equity | <u>757,806</u> | <u>788,095</u> |
| Total liabilities and stockholders' equity | <u>\$ 1,332,278</u> | <u>\$ 1,266,142</u> |

Shutterfly, Inc.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

| | Twelve Months Ended | |
|--|----------------------------|-------------|
| | December 31, | |
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income/(loss) | \$ (7,860) | \$ 9,285 |
| Adjustments to reconcile net income/(loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 64,885 | 43,887 |
| Amortization of intangible assets | 33,867 | 30,969 |
| Amortization of debt discount and transaction costs | 12,905 | 7,707 |
| Stock-based compensation, net of forfeitures | 61,762 | 53,528 |
| Loss on disposal of property and equipment and rental assets | 361 | 13 |
| Deferred income taxes | (2,604) | 331 |
| Tax benefit/(shortfall) from stock-based compensation | (163) | 2,957 |

| | | |
|---|-------------------|-------------------|
| Excess tax benefits from stock-based compensation | (1,025) | (3,635) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (9,464) | (7,174) |
| Inventories | (3,388) | (3,681) |
| Prepaid expenses and other current assets | (3,958) | (4,347) |
| Other assets | (1,442) | (7,669) |
| Accounts payable | (1,275) | 3,583 |
| Accrued and other liabilities | 18,273 | 16,089 |
| Deferred revenue | 7,301 | 5,258 |
| Other non-current liabilities | (1,687) | 167 |
| Net cash provided by operating activities | <u>166,488</u> | <u>147,268</u> |
| Cash flows from investing activities: | | |
| Acquisition of business and intangible assets, net of cash acquired | (12,000) | (76,893) |
| Purchases of property and equipment | (71,169) | (62,582) |
| Capitalization of software and website development costs | (21,032) | (15,760) |
| Purchases of investments | (124,111) | - |
| Maturities and sales of investments | 29,980 | - |
| Proceeds from sale of equipment and rental assets | 904 | 388 |
| Net cash used in investing activities | <u>(197,428)</u> | <u>(154,847)</u> |
| Cash flows from financing activities: | | |
| Proceeds from borrowings of convertible senior notes, net of issuance costs | - | 291,897 |
| Proceeds from issuance of warrants | - | 43,560 |
| Purchase of convertible note hedge | - | (63,510) |
| Proceeds from issuance of common stock upon exercise of stock options | 3,243 | 19,112 |
| Repurchases of common stock | (88,815) | (32,241) |
| Excess tax benefits from stock-based compensation | 1,025 | 3,635 |
| Principal payments of capital lease and financing obligations | (3,054) | (878) |
| Net cash provided by/(used in) financing activities | <u>(87,601)</u> | <u>261,575</u> |
| Net increase/(decrease) in cash and cash equivalents | (118,541) | 253,996 |
| Cash and cash equivalents, beginning of period | 499,084 | 245,088 |
| Cash and cash equivalents, end of period | <u>\$ 380,543</u> | <u>\$ 499,084</u> |

Supplemental schedule of non-cash activities

| | | |
|--|------------|------------|
| Net decrease in accrued purchases of property and equipment | \$ (2,674) | \$ (3,372) |
| Net increase in accrued capitalized software and website development costs | 716 | - |
| Increase in estimated fair market value of building under build-to-suit leases | 22,855 | 10,080 |
| Property and equipment acquired under capital leases | 37,823 | - |
| Amount due from adjustment of net working capital from acquired business | 253 | 10 |
| Amount due for acquisition of business | 1,673 | - |

Shutterfly, Inc.

Consumer Metrics Disclosure

| | Three Months Ended | | Twelve Months Ended | |
|--|--------------------|------|---------------------|------|
| | December 31, | | December 31, | |
| | 2014 | 2013 | 2014 | 2013 |

Consumer Metrics

| | | | | |
|-----------------------|-----------|-----------|------------|------------|
| Customers | 5,673,174 | 4,652,682 | 9,206,162 | 8,094,038 |
| year-over-year growth | 22% | | 14% | |
| Orders | 9,592,330 | 7,693,863 | 21,772,719 | 18,561,022 |
| year-over-year growth | 25% | | 17% | |
| Average order value* | \$48.26 | \$51.80 | \$40.00 | \$40.19 |
| year-over-year growth | -7% | | - | |

* Average order value excludes Enterprise revenue.

Shutterfly, Inc.

Segment Disclosure

(In thousands)

(Unaudited)

| | Three Months Ended | | | | Year Ended | Year Ended | Year Ended |
|-----------------------|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Mar. 31, 2014 | Jun. 30, 2014 | Sep. 30, 2014 | Dec. 31, 2014 | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2012 |
| Consumer | | | | | | | |
| Revenues | \$ 130,621 | \$ 150,152 | \$ 127,299 | \$ 462,887 | \$ 870,959 | \$ 745,970 | \$ 613,445 |
| Cost of revenues | 66,408 | 72,250 | 73,845 | 181,762 | 394,265 | 327,145 | 263,962 |
| Gross Margin | 64,213 | 77,902 | 53,454 | 281,125 | 476,694 | 418,825 | 349,483 |
| | 49.2% | 51.9% | 42.0% | 60.7% | 54.7% | 56.1% | 57.0% |
| Enterprise | | | | | | | |
| Revenues | 6,478 | 8,996 | 14,709 | 20,438 | 50,621 | 37,672 | 27,179 |
| Cost of revenues | 6,110 | 7,368 | 12,173 | 17,805 | 43,456 | 29,480 | 22,803 |
| Gross Margin | 368 | 1,628 | 2,536 | 2,633 | 7,165 | 8,192 | 4,376 |
| | 5.7% | 18.1% | 17.2% | 12.9% | 14.2% | 21.7% | 16.1% |
| Corporate (1) | | | | | | | |
| Revenues | - | - | - | - | - | - | - |
| Cost of revenues | 3,825 | 3,717 | 3,708 | 3,749 | 14,999 | 12,968 | 8,092 |
| Gross Margin | (3,825) | (3,717) | (3,708) | (3,749) | (14,999) | (12,968) | (8,092) |
| Consolidated | | | | | | | |
| Revenues | 137,099 | 159,148 | 142,008 | 483,325 | 921,580 | 783,642 | 640,624 |
| Cost of revenues | 76,343 | 83,335 | 89,726 | 203,316 | 452,720 | 369,593 | 294,857 |
| Gross Margin | \$ 60,756 | \$ 75,813 | \$ 52,282 | \$ 280,009 | \$ 468,860 | \$ 414,049 | \$ 345,767 |
| | 44.3% | 47.6% | 36.8% | 57.9% | 50.9% | 52.8% | 54.0% |
| Non-GAAP Gross Margin | 47.1% | 50.0% | 39.4% | 58.7% | 52.5% | 54.5% | 55.2% |

(1) Corporate category includes activities that are not directly attributable or allocable to a specific segment. This category consists of stock-based compensation and amortization of intangible assets.

Shutterfly, Inc.

Reconciliation of Forward-Looking Guidance for Non-GAAP Financial Measures to GAAP Measures

(In millions, except per share amounts)

| | Forward-Looking Guidance | | | | | |
|---|--------------------------|----------|-------------|------------|------------------------|----------|
| | GAAP | | Adjustments | | Non-GAAP | |
| | Range of Estimate From | To | From | To | Range of Estimate From | To |
| Three Months Ending March 31, 2015 | | | | | | |
| Net revenues | \$153.0 | \$157.0 | - | - | \$153.0 | \$157.0 |
| Gross profit margin | 39.1% | 40.0% | 2.6% | 2.6% [a] | 41.7% | 42.6% |
| Operating loss | (\$53.5) | (\$53.3) | \$26.1 | \$25.9 [b] | (\$27.4) | (\$27.4) |
| Operating margin | (35%) | (34%) | 17% | 17% [b] | (18%) | (17%) |
| Stock-based compensation | \$18.2 | \$18.4 | \$18.2 | \$18.4 | - | - |
| Amortization of intangible assets | \$7.7 | \$7.7 | \$7.7 | \$7.7 | - | - |
| Adjusted EBITDA* | | | | | (\$7.2) | (\$5.2) |
| Diluted loss per share | (\$1.45) | (\$1.27) | \$0.09 | \$0.07 [e] | (\$1.36) | (\$1.20) |
| Weighted average diluted shares | 38.2 | 38.2 | | | | |
| Effective tax rate | 16.0% | 5.0% | | | | |

Twelve Months Ending December 31, 2015

| | | | | | | |
|--|-----------|-----------|--------|------------|-----------|-----------|
| Net revenues | \$1,040.0 | \$1,060.0 | - | - | \$1,040.0 | \$1,060.0 |
| Gross profit margin | 49.0% | 50.5% | 1.1% | 1.1% [c] | 50.1% | 51.6% |
| Operating income | \$0.5 | \$7.5 | \$95.5 | \$96.5 [d] | \$96.0 | \$104.0 |
| Operating margin | 0% | 1% | 9% | 9% [d] | 9% | 10% |
| Operating income excluding restructuring | \$0.5 | \$7.5 | \$11.3 | \$13.3 [g] | \$11.8 | \$20.8 |
| Stock-based compensation | \$68.5 | \$69.5 | \$68.5 | \$69.5 | - | - |

| | | | | | | |
|---|----------|----------|--------|------------|----------|-------------|
| Amortization of intangible assets | \$27.0 | \$27.0 | \$27.0 | \$27.0 | - | - |
| Adjusted EBITDA* | | | | | \$182.0 | \$192.0 |
| Adjusted EBITDA* margin | | | | | 17.5% | 18.1% |
| Adjusted EBITDA* excluding restructuring | | | | | \$192.0 | \$204.0 [h] |
| Adjusted EBITDA* margin excluding restructuring | | | | | 18.5% | 19.2% [h] |
| Diluted earnings/(loss) per share | (\$0.43) | (\$0.31) | \$0.31 | \$0.35 [f] | (\$0.12) | \$0.04 |
| Weighted average diluted shares | 38.9 | 38.9 | | | | |
| Effective tax rate | 16.0% | 5.0% | | | | |
| Capital expenditures - % of net revenues | 8.6% | 9.2% | | | | |

* Adjusted EBITDA is a non-GAAP financial measure defined as earnings before interest, taxes, depreciation, amortization and stock-based compensation.

[a] Reflects estimated adjustments for stock-based compensation expense of approximately \$1.2 million and amortization of purchased intangible assets of approximately \$2.8 million.

[b] Reflects estimated adjustment for stock-based compensation expense of approximately \$18.2 million to \$18.4 million, and amortization of purchased intangible assets of approximately \$7.7 million.

[c] Reflects estimated adjustments for stock-based compensation expense of approximately \$3.8 million and amortization of purchased intangible assets of approximately \$8.1 million.

[d] Reflects estimated adjustments for stock-based compensation expense of approximately \$68.5 million to \$69.5 million and amortization of purchased intangible assets of approximately \$27.0 million.

[e] Reflects estimated adjustments for interest expense of approximately \$3.0 million to \$3.3 million, net of tax.

[f] Reflects estimated adjustments for interest expense of approximately \$12.1 million to \$13.7 million, net of tax.

[g] Reflects a range of estimated adjustments for the following restructuring events:

| | From | To |
|-------------------------------------|----------------|----------------|
| Platform consolidation | \$ 5.0 | \$ 6.0 |
| Elmsford facility and Treat closure | 5.0 | 6.0 |
| Depreciation and amortization [1] | 1.3 | 1.3 |
| | <u>\$ 11.3</u> | <u>\$ 13.3</u> |

[1] Includes accelerated depreciation of capitalized website costs and amortization of intangible assets.

[h] Reflects estimated adjustments for platform consolidation, Elmsford facility closure, and Treat shutdown (excluding depreciation and amortization) of approximately \$10.0 million to \$12.0 million.

Shutterfly, Inc.

Reconciliation of GAAP Gross Profit Margin to Non-GAAP Gross Profit Margin

(In thousands)

(Unaudited)

| | Three Months Ended | | | | | | | | Year Ended | |
|-----------------------------------|--------------------|------------------|------------------|-------------------|------------------|------------------|------------------|-------------------|------------------|------------------|
| | Mar. 31, 2013 | Jun. 30, 2013 | Sep. 30, 2013 | Dec. 31, 2013 | Mar. 31, 2014 | Jun. 30, 2014 | Sep. 30, 2014 | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2014 |
| GAAP gross profit | \$ 54,855 | \$ 61,745 | \$ 51,377 | \$ 246,072 | \$ 60,756 | \$ 75,813 | \$ 52,282 | \$ 280,009 | \$414,049 | \$468,860 |
| Stock-based compensation | 564 | 592 | 646 | 683 | 1,002 | 894 | 886 | 875 | 2,485 | 3,657 |
| Amortization of intangible assets | 2,390 | 2,608 | 2,685 | 2,800 | 2,823 | 2,823 | 2,822 | 2,874 | 10,483 | 11,342 |
| Non-GAAP gross profit | <u>\$ 57,809</u> | <u>\$ 64,945</u> | <u>\$ 54,708</u> | <u>\$ 249,555</u> | <u>\$ 64,581</u> | <u>\$ 79,530</u> | <u>\$ 55,990</u> | <u>\$ 283,758</u> | <u>\$427,017</u> | <u>\$483,859</u> |
| Non-GAAP gross profit margin | <u>50%</u> | <u>49%</u> | <u>45%</u> | <u>61%</u> | <u>47%</u> | <u>50%</u> | <u>39%</u> | <u>59%</u> | <u>54%</u> | <u>53%</u> |

Shutterfly, Inc.

Reconciliation of GAAP Operating Margin to Non-GAAP Operating Margin

(In thousands)

(Unaudited)

| | Three Months Ended | | | | | | | | Year Ended | |
|------------------------------|--------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Mar. 31, 2013 | Jun. 30, 2013 | Sep. 30, 2013 | Dec. 31, 2013 | Mar. 31, 2014 | Jun. 30, 2014 | Sep. 30, 2014 | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2014 |
| GAAP operating income (loss) | \$ (23,964) | \$ (23,933) | \$ (34,622) | \$ 104,577 | \$ (38,611) | \$ (26,697) | \$ (48,927) | \$ 120,480 | \$ 22,058 | \$ 6,245 |

| | | | | | | | | | | |
|-----------------------------------|-------------------|-------------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|-------------------|-------------------|
| Stock-based compensation | 11,538 | 12,649 | 13,982 | 15,359 | 15,992 | 14,714 | 13,788 | 17,268 | 53,528 | 61,762 |
| Amortization of intangible assets | 6,511 | 7,539 | 8,189 | 8,730 | 8,583 | 8,740 | 8,530 | 8,014 | 30,969 | 33,867 |
| Non-GAAP operating income (loss) | <u>\$ (5,915)</u> | <u>\$ (3,745)</u> | <u>\$ (12,451)</u> | <u>\$ 128,666</u> | <u>\$ (14,036)</u> | <u>\$ (3,243)</u> | <u>\$ (26,609)</u> | <u>\$ 145,762</u> | <u>\$ 106,555</u> | <u>\$ 101,874</u> |
| Non-GAAP operating margin | (5%) | (3%) | (10%) | 31% | (10%) | (2%) | (19%) | 30% | 14% | 11% |

Shutterfly, Inc.

Reconciliation of Net Income (Loss) to Non-GAAP Adjusted EBITDA

(In thousands)

(Unaudited)

| | Three Months Ended | | | | | | | | Year Ended | |
|--------------------------------|--------------------|-----------------|-------------------|-------------------|---------------|------------------|-------------------|-------------------|-------------------|-------------------|
| | Mar. 31, 2013 | Jun. 30, 2013 | Sep. 30, 2013 | Dec. 31, 2013 | Mar. 31, 2014 | Jun. 30, 2014 | Sep. 30, 2014 | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2014 |
| GAAP net income (loss) | \$ (12,405) | \$ (11,811) | \$ (10,148) | \$ 43,649 | \$ (34,214) | \$ (27,052) | \$ (46,244) | \$ 99,650 | \$ 9,285 | \$ (7,860) |
| Interest expense | 139 | 1,936 | 3,609 | 3,762 | 3,947 | 3,856 | 4,381 | 4,548 | 9,446 | 16,732 |
| Interest and other income, net | (7) | (35) | (139) | (127) | (227) | (54) | (102) | (125) | (308) | (508) |
| Tax (benefit) provision | (11,691) | (14,023) | (27,944) | 57,293 | (8,117) | (3,447) | (6,962) | 16,407 | 3,635 | (2,119) |
| Depreciation and amortization | 15,738 | 17,580 | 19,573 | 21,965 | 22,805 | 23,712 | 25,415 | 26,820 | 74,856 | 98,752 |
| Stock-based compensation | 11,538 | 12,649 | 13,982 | 15,359 | 15,992 | 14,714 | 13,788 | 17,268 | 53,528 | 61,762 |
| Non-GAAP Adjusted EBITDA | <u>\$ 3,312</u> | <u>\$ 6,296</u> | <u>\$ (1,067)</u> | <u>\$ 141,901</u> | <u>\$ 186</u> | <u>\$ 11,729</u> | <u>\$ (9,724)</u> | <u>\$ 164,568</u> | <u>\$ 150,442</u> | <u>\$ 166,759</u> |

Shutterfly, Inc.

Reconciliation of Cash Flow from Operating Activities to Non-GAAP Adjusted EBITDA and Free Cash Flow

(In thousands)

(Unaudited)

| | Three Months Ended | | | | | | | | Year Ended | |
|---|--------------------|--------------------|--------------------|-------------------|--------------------|--------------------|--------------------|-------------------|------------------|------------------|
| | Mar. 31, 2013 | Jun. 30, 2013 | Sep. 30, 2013 | Dec. 31, 2013 | Mar. 31, 2014 | Jun. 30, 2014 | Sep. 30, 2014 | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2014 |
| Net cash provided by (used in) operating activities | \$ (83,504) | \$ 11,923 | \$ 309 | \$ 218,540 | \$ (97,473) | \$ 12,282 | \$ (7,850) | \$ 259,529 | \$ 147,268 | \$ 166,488 |
| Interest expense | 139 | 1,936 | 3,609 | 3,762 | 3,947 | 3,856 | 4,381 | 4,548 | 9,446 | 16,732 |
| Interest and other income, net | (7) | (35) | (139) | (127) | (227) | (54) | (102) | (125) | (308) | (508) |
| Tax (benefit) provision | (11,691) | (14,023) | (27,944) | 57,293 | (8,117) | (3,447) | (6,962) | 16,407 | 3,635 | (2,119) |
| Changes in operating assets and liabilities | 101,426 | 2,555 | 19,961 | (126,168) | 106,531 | (7,633) | (2,521) | (100,737) | (2,226) | (4,360) |
| Other adjustments | (3,051) | 3,940 | 3,137 | (11,399) | (4,475) | 6,725 | 3,330 | (15,054) | (7,373) | (9,474) |
| Non-GAAP Adjusted EBITDA | <u>3,312</u> | <u>6,296</u> | <u>(1,067)</u> | <u>141,901</u> | <u>186</u> | <u>11,729</u> | <u>(9,724)</u> | <u>164,568</u> | <u>150,442</u> | <u>166,759</u> |
| Less: Purchases of property and equipment | (10,832) | (15,869) | (20,343) | (12,166) | (16,419) | (22,734) | (18,769) | (10,573) | (59,210) | (68,495) |
| Less: Capitalized technology & development costs | (3,495) | (4,255) | (4,307) | (3,703) | (5,112) | (5,324) | (6,084) | (5,228) | (15,760) | (21,748) |
| Free cash flow | <u>\$ (11,015)</u> | <u>\$ (13,828)</u> | <u>\$ (25,717)</u> | <u>\$ 126,032</u> | <u>\$ (21,345)</u> | <u>\$ (16,329)</u> | <u>\$ (34,577)</u> | <u>\$ 148,767</u> | <u>\$ 75,472</u> | <u>\$ 76,516</u> |

Shutterfly, Inc.

Reconciliation of Net Income/(Loss) per Share to Non-GAAP Net Income/(Loss) per Share

(In thousands)

(Unaudited)

| | Three Months Ended | | | | | | | | Year Ended | |
|--|--------------------|--------------------|-------------------|------------------|--------------------|--------------------|--------------------|-------------------|------------------|------------------|
| | Mar. 31, 2013 | Jun. 30, 2013 | Sep. 30, 2013 | Dec. 31, 2013 | Mar. 31, 2014 | Jun. 30, 2014 | Sep. 30, 2014 | Dec. 31, 2014 | Dec. 31, 2013 | Dec. 31, 2014 |
| GAAP net income (loss) | \$ (12,405) | \$ (11,811) | \$ (10,148) | \$ 43,649 | \$ (34,214) | \$ (27,052) | \$ (46,244) | \$ 99,650 | \$ 9,285 | \$ (7,860) |
| Add back interest expense related to: | | | | | | | | | | |
| Amortization of debt discount | - | 1,401 | 2,771 | 2,830 | 2,870 | 2,911 | 2,951 | 2,994 | 7,002 | 11,726 |
| Amortization of debt issuance costs | - | 160 | 260 | 285 | 288 | 293 | 297 | 301 | 705 | 1,179 |
| 0.25% coupon | - | 93 | 188 | 188 | 188 | 187 | 187 | 188 | 469 | 750 |
| Tax effect | - | (770) | (2,046) | 516 | (637) | (438) | (395) | (1,430) | (2,300) | (2,900) |
| Non-GAAP net income (loss) | <u>\$ (12,405)</u> | <u>\$ (10,927)</u> | <u>\$ (8,975)</u> | <u>\$ 47,468</u> | <u>\$ (31,505)</u> | <u>\$ (24,099)</u> | <u>\$ (43,204)</u> | <u>\$ 101,703</u> | <u>\$ 15,161</u> | <u>\$ 2,895</u> |
| GAAP basic shares outstanding | 37,034 | 37,775 | 37,814 | 38,097 | 38,503 | 38,438 | 38,453 | 38,412 | 37,680 | 38,452 |
| Add back: | | | | | | | | | | |
| Dilutive effect of stock options and restricted awards | - | - | - | 1,616 | - | - | - | 1,219 | 1,813 | - |
| GAAP diluted shares outstanding | <u>37,034</u> | <u>37,775</u> | <u>37,814</u> | <u>39,713</u> | <u>38,503</u> | <u>38,438</u> | <u>38,453</u> | <u>39,631</u> | <u>39,493</u> | <u>38,452</u> |
| Add back: | | | | | | | | | | |
| Dilutive effect of stock options and restricted awards | - | - | - | - | - | - | - | - | - | 1,442 |
| Dilutive effect of convertible notes | - | - | - | - | - | - | - | - | - | - |
| Non-GAAP diluted shares outstanding | <u>37,034</u> | <u>37,775</u> | <u>37,814</u> | <u>39,713</u> | <u>38,503</u> | <u>38,438</u> | <u>38,453</u> | <u>39,631</u> | <u>39,493</u> | <u>39,894</u> |
| GAAP net income (loss) per share | <u>\$ (0.33)</u> | <u>\$ (0.31)</u> | <u>\$ (0.27)</u> | <u>\$ 1.10</u> | <u>\$ (0.89)</u> | <u>\$ (0.70)</u> | <u>\$ (1.20)</u> | <u>\$ 2.51</u> | <u>\$ 0.24</u> | <u>\$ (0.20)</u> |
| Non-GAAP net income (loss) per share | <u>\$ (0.33)</u> | <u>\$ (0.29)</u> | <u>\$ (0.24)</u> | <u>\$ 1.20</u> | <u>\$ (0.82)</u> | <u>\$ (0.63)</u> | <u>\$ (1.12)</u> | <u>\$ 2.57</u> | <u>\$ 0.38</u> | <u>\$ 0.07</u> |

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