



Q1 2019 Earnings Conference Call

April 25, 2019

Christopher North, President and CEO

Mike Pope, CFO

Safe Harbor Disclaimer

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 preschool customers receiving digital images through Shutterfly Photos in the second quarter of 2019; a multi-year deal with a new client in SBS; and the Company's business outlook for the three months ended June 30, 2019 and the year ended December 31, 2019. 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 spending as a result of general economic conditions; consumer acceptance of the Company's products and services; the Company's ability to develop innovative, new products and services on a timely and cost-effective basis; the Company's ability to expand its customer base and increase sales to existing customers; the Company's ability to meet production requirements; 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 our most recent earnings release and 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. 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 net revenue, non-GAAP segment net revenue, non-GAAP profits/margins, non-GAAP segment profits/margins, non-GAAP operating expenses, non-GAAP operating loss, non-GAAP operating margin, 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, net revenue, segment net revenue, gross profit, gross margin, gross profit by segment, gross margin by segment, operating expenses, operating loss, operating margin, 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. See the appendices of our quarterly financial press releases for reconciliations.

Q1'19 Earnings Call Agenda



- Overview



- Q1'19 business review
- Q1'19 financials
- Capital Update
- Financial Outlook

Q1'19 Summary

FINANCIALS

- Met or exceeded guidance on all major metrics
- Solid results across all three divisions
- Exceeded expectations on Adjusted EBITDA

BUSINESS

- Strong progress on Lifetouch integration
- Shutterfly Consumer progress in mobile, product range, and personalized go-to-market
- Multi-year deal with new client in SBS

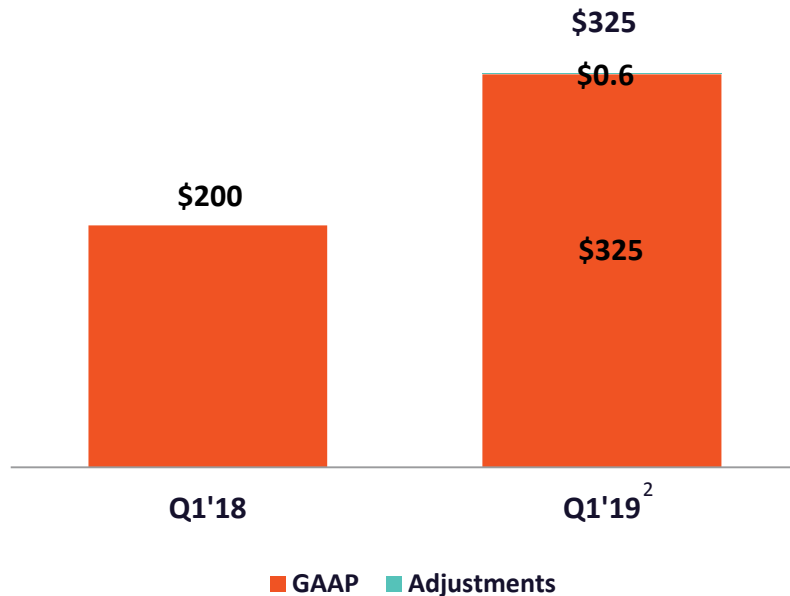
STRATEGIC

- CEO search progressing
- Repaid \$200 million of term loan B in January
- New President at Shutterfly Consumer, Jim Hilt

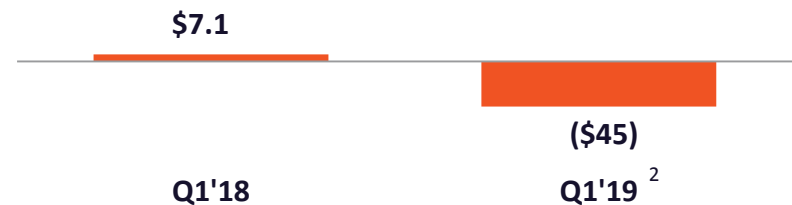
Q1'19 Financial Summary

(\$ in Millions)

Total Net Revenue



Adj. EBITDA¹



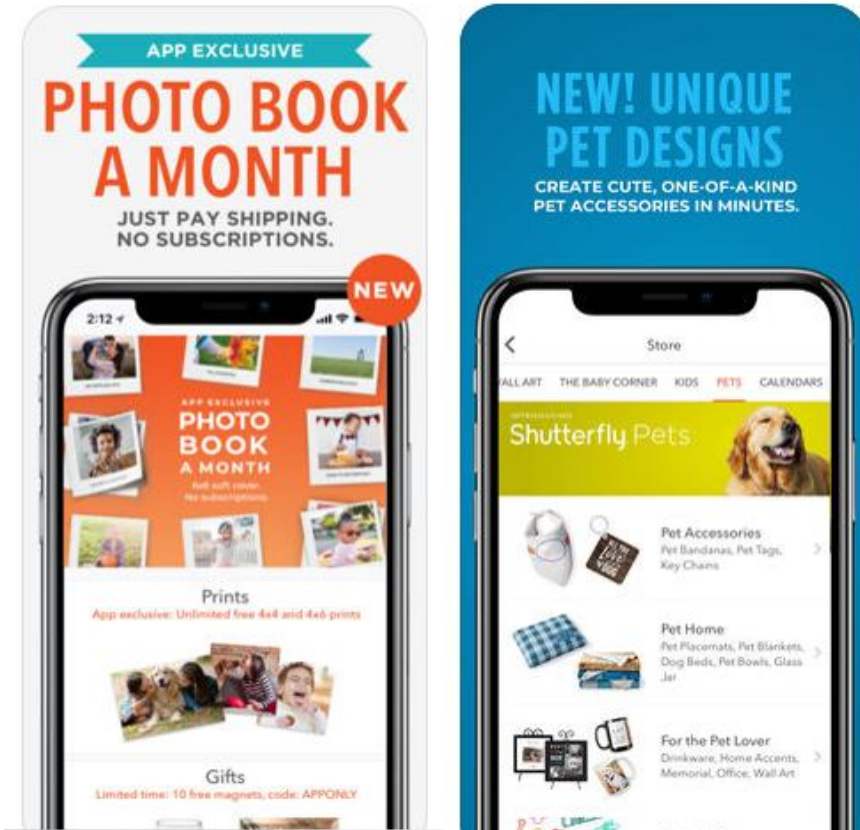
Revenue met and Adjusted EBITDA, excluding an immaterial out-of-period adjustment³, was above expectations driven by solid performance in each of our divisions with strong expense control.

¹Adjusted EBITDA is a Non-GAAP measure defined as earnings before interest, taxes, depreciation, amortization, stock-based compensation, restructuring, acquisition-related costs, and executive transition and strategic review costs.

²Normalized for purchase accounting adjustments related to the write-down of deferred revenue of \$0.6 million.

³An immaterial out-of-period adjustment related to shipping services for the fourth quarter of 2018 of \$2.8 million, which increased cost of net revenue, and burdened gross margin, operating loss, net loss, and Adjusted EBITDA loss.

Shutterfly Consumer



- Q1 Revenue of **\$149M**
- Continued **growth** in PGHD
- **Mobile** up 470 basis points to 32% of Q1'19 Shutterfly brand
- **Positive** results from **machine learning** driven marketing campaigns

Solid results overall; progress on strategic initiatives

Lifetouch



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- Lifetouch GAAP revenue of **\$129M**, and Non-GAAP revenue of **\$130M** in Q1'19
- **Schools and Preschool segments** solid
- **Project Aspen** on track
- **Progress** on technology integration: Preschool customers will receive digital images through Shutterfly Photos in Q2

Solid Q1 results; integration and Project Aspen initiatives on-track.

SBS



- SBS revenue of **\$47M** in Q1'19
- Signed a **multi-year deal** with a new client
- Expand offering to **education** industry
- Tech-driven **online channel** for creating and managing highly personalized planners

Revenue met expectations with gross margin expansion.

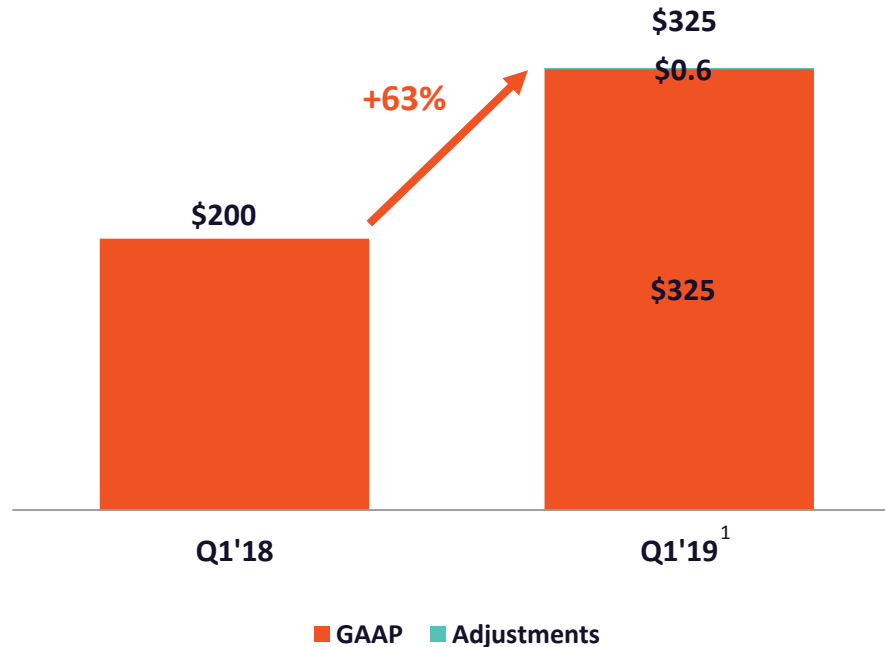
Q1'19 Financial Results Review



Mike Pope, CFO

Q1'19 Net Revenue

(\$ in Millions)



Q1'19 non-GAAP net revenue of \$325 million met expectations driven by solid performances in all three divisions.

Q1'19 Net Revenue by Segment

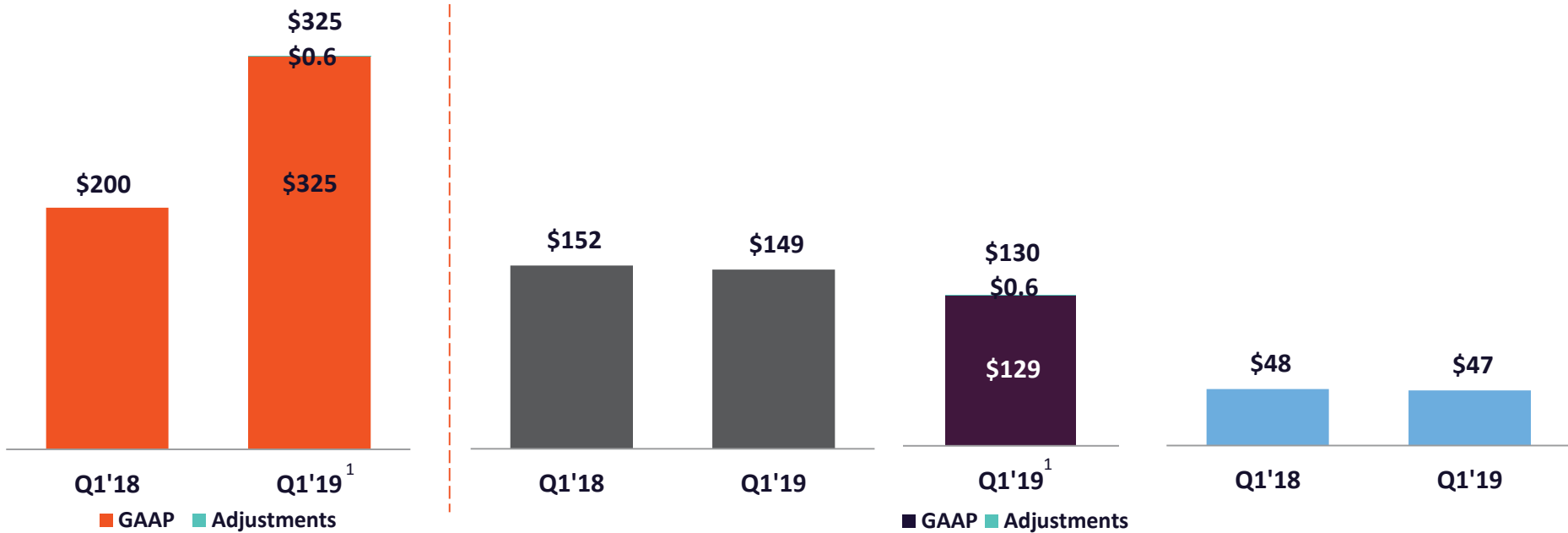
(\$ in Millions)

Total

Shutterfly Consumer

Lifetouch

SBS



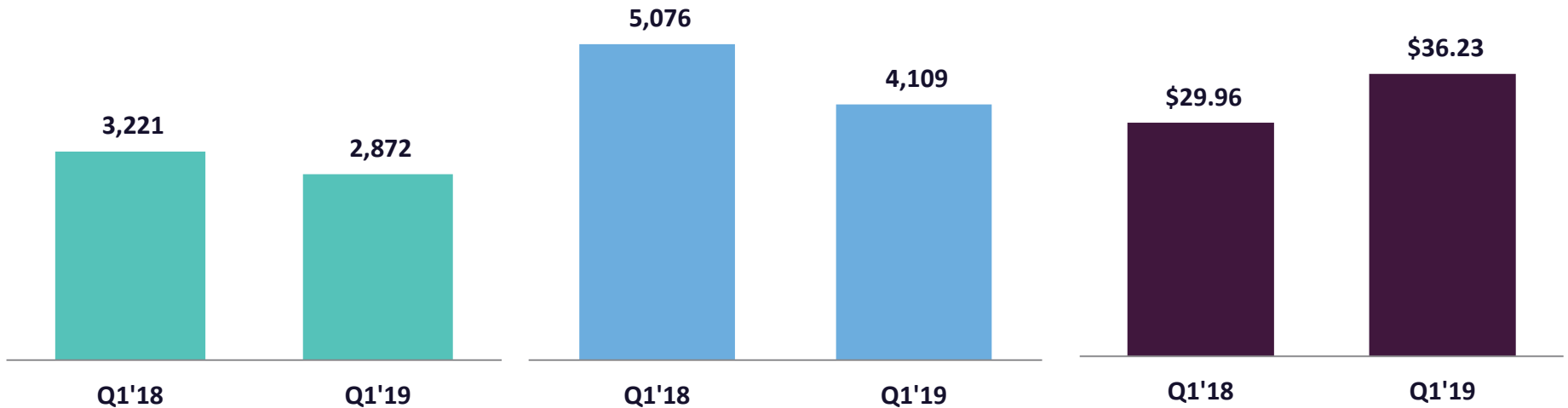
Net non-GAAP revenue of \$325 million with Shutterfly Consumer representing 46%, Lifetouch 40%, and SBS 14%.

Q1'19 Shutterfly Consumer Metrics

Active Customers (000's)

Orders (000's)

Average Order Value¹

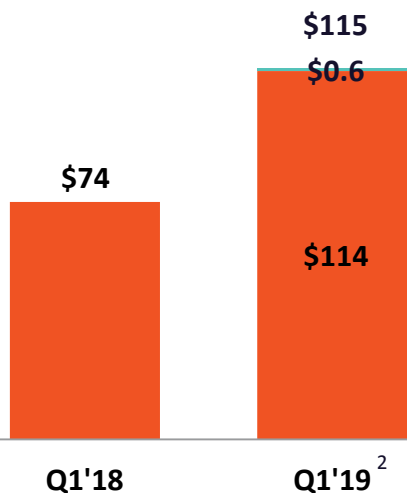


Shutterfly Consumer metrics reflect a changing mix away from free and towards paid revenues, and the negative impact from a lower year-over-year backlog.

Q1'19 Gross Profit by Segment

(\$ in Millions)

Total



Q1'18

Q1'19²

GAAP

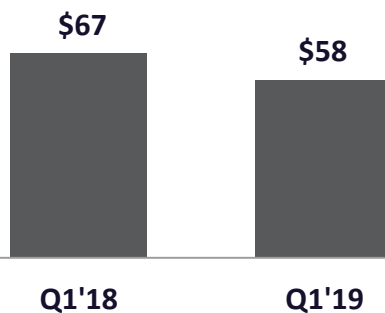
Adjustments

GM%

36.9%

35.3%

Shutterfly Consumer¹



Q1'18

Q1'19

44.2%

39.3%

Lifetouch¹

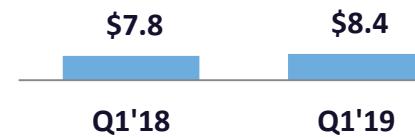


Q1'19²

GAAP Adjustments

39.7%

SBS¹



Q1'18

Q1'19

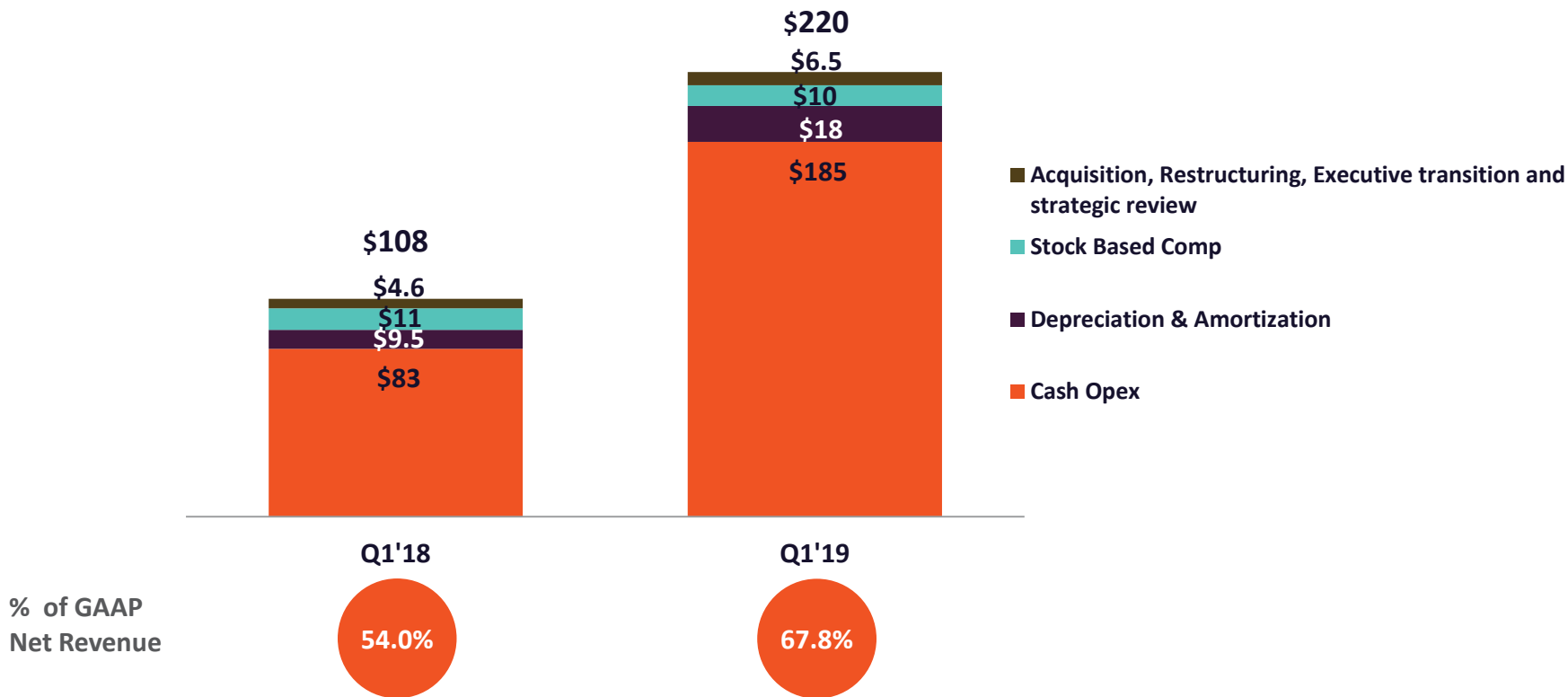
16.3%

18.0%

Non-GAAP gross margins of 35.3% burdened by an immaterial out-of-period adjustment of \$2.8 million related to shipping services for Q4'18.

Q1'19 Total Operating Expenses

(\$ in Millions)

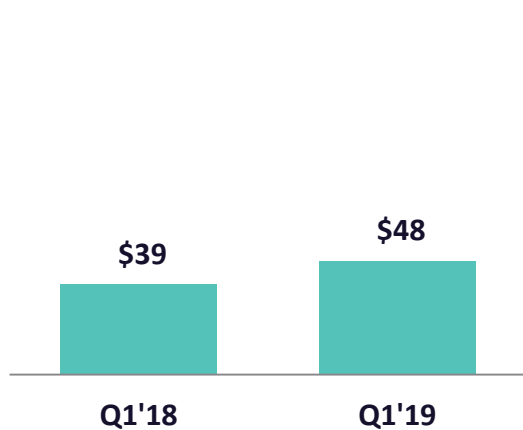


Operating expenses include Lifetouch in Q1'19.

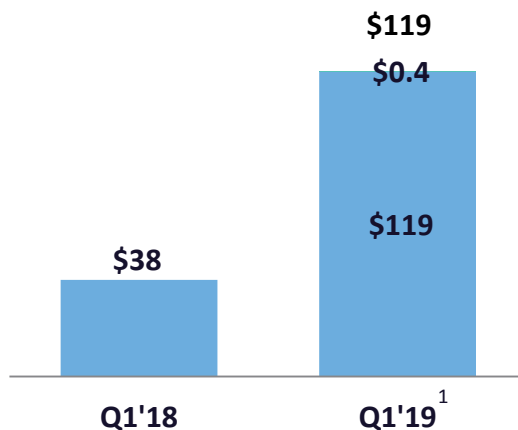
Q1'19 Operating Expenses by Category

(\$ in Millions)

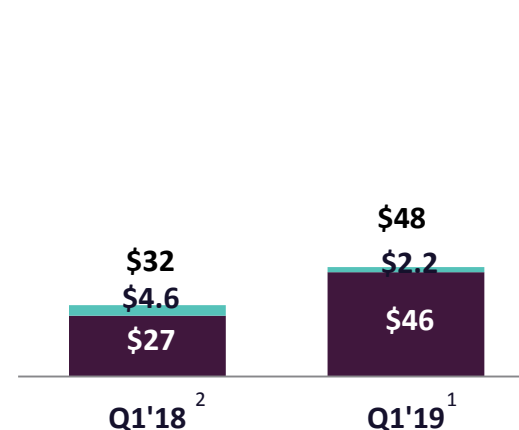
Technology & Development



Sales & Marketing



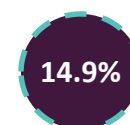
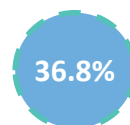
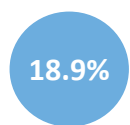
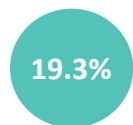
General & Administrative



■ Non-GAAP ■ Adjustments

■ Non-GAAP ■ Adjustments

% of Net
GAAP
Revenue



Operating Expenses increased due to Lifetouch.

¹Normalized for executive transition and strategic review costs of \$0.4 million and \$2.2 million in Sales & Marketing and General & Administrative, respectively.

²Normalized for acquisition-related costs of \$4.6 million in Q1'18.

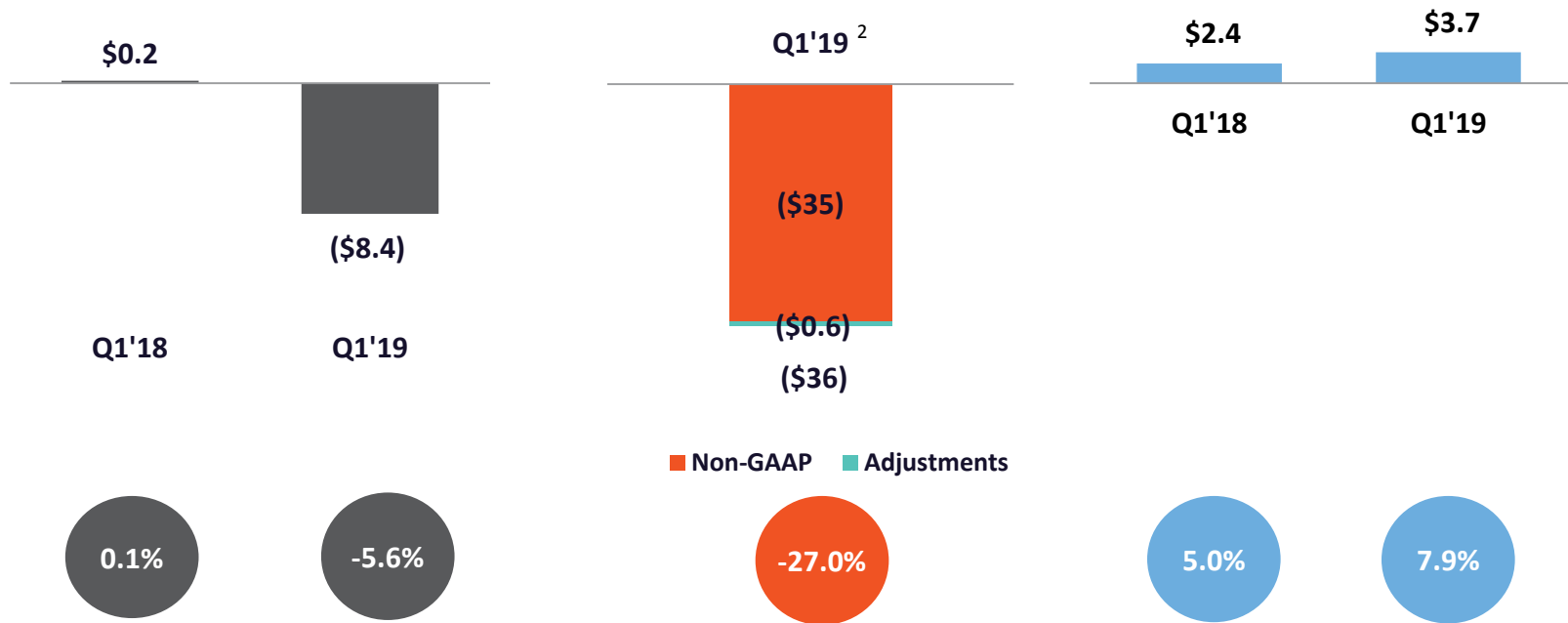
Q1'19 Segment Margin¹

(\$ in Millions)

Shutterfly Consumer

Lifetouch

SBS



Shutterfly Consumer decline due to decrease in gross margin and expenses related to Project Aspen and the manufacturing integration; Lifetouch Q1 is a seasonally slow quarter; SBS increase due to higher gross margin.

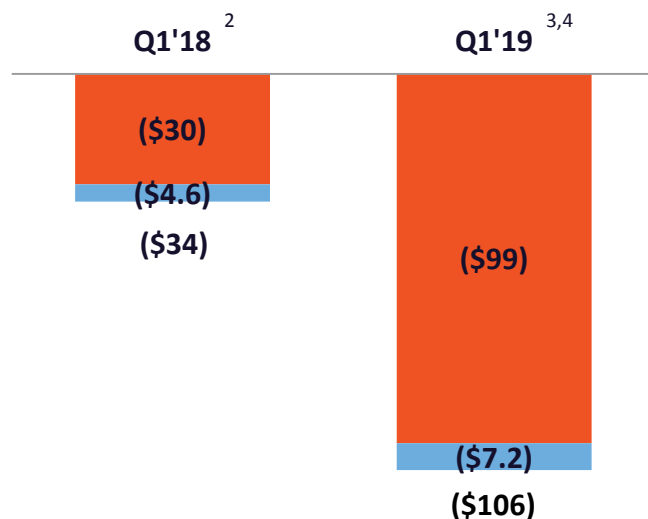
¹The margins reported reflect only costs that are directly attributable or allocable to a specific segment and exclude corporate expenses, amortization of intangible assets, stock-based compensation, restructuring, and executive transition and strategic review costs.

²Normalized for purchase accounting adjustments related to the write-down of deferred revenue of \$0.6 million.

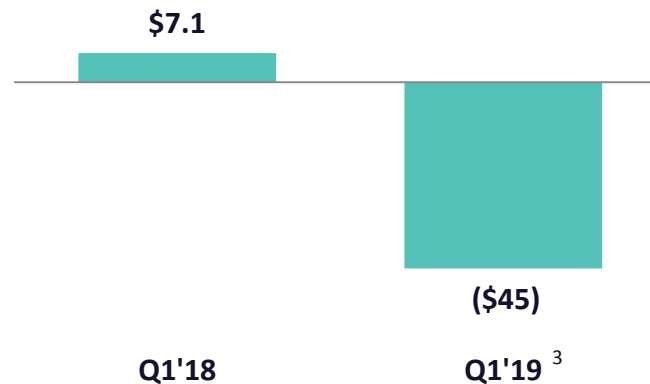
Q1'19 Profitability

(\$ in Millions)

Operating Loss



Adjusted EBITDA¹



% Net
GAAP
Revenue

■ Non-GAAP ■ Adjustments



Adjusted EBITDA loss, excluding an immaterial out-of-period adjustment of \$2.8 million for shipping services that were related to the fourth quarter of 2018, was \$42.5 million

¹Adjusted EBITDA is a Non-GAAP measure defined as earnings before interest, taxes, depreciation, amortization, stock-based compensation, restructuring, acquisition-related costs, and executive transition and strategic review costs.

²Normalized for acquisition-related costs of \$4.6 million.

³Normalized for purchase accounting adjustments related to the write-down of deferred revenue of \$0.6 million

⁴Normalized for restructuring charges of \$4.0 million and executive transition and strategic review costs of \$2.6 million.

Q1'19 Profitability

(\$ and shares in millions except per share amounts)

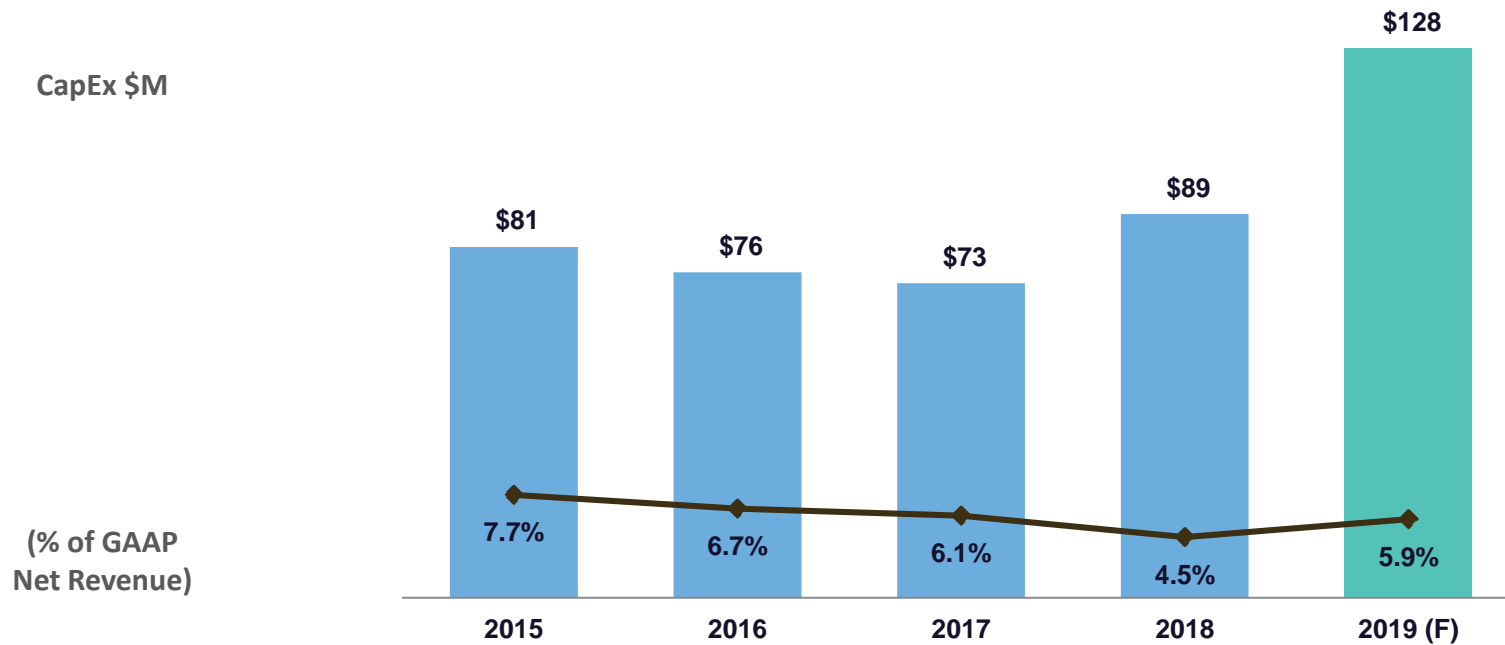
	Q1 FY19 GAAP	Q1 FY19 Non-GAAP ²
Net Revenue	\$325	\$325
Gross Profit	\$114	\$115
<i>Gross Margin</i>	35.2%	35.3%
Operating Loss	(\$106)	(\$99)
<i>Operating Margin</i>	-32.6%	-30.3%
Adjusted EBITDA ¹		(\$45)
<i>Adjusted EBITDA Margin</i>		-13.9%
Loss before Taxes	(\$123)	(\$112)
Benefits for Income Taxes	\$39	\$29
<i>Effective Tax Rate</i>	31.9%	26.0%
Net Loss	(\$84)	(\$83)
Diluted Shares	33.9	33.9
Net Loss per Share	(\$2.47)	(\$2.44)

¹Adjusted EBITDA is a Non-GAAP measure defined as earnings before interest, taxes, depreciation, amortization, stock-based compensation, restructuring, acquisition-related costs, and executive transition and strategic review costs.

²Normalized for purchase accounting adjustments related to the write-down of deferred revenue of \$0.6 million, executive transition and strategic review costs of \$2.6 million, restructuring charges of \$4.0 million, and non-cash charges related to the \$200 million debt repayment of \$3.9 million.

Annual Capital Expenditures

(\$ in Millions)



Q1'19 capital expenditures were \$28 million.

Financial Outlook



Mike Pope, CFO

Q2'19 Shutterfly Guidance^{1,2}

(\$ and shares in Millions, except per share amounts)

	<u>Non-GAAP Q2'19</u>
Net Revenue	\$469 to \$479
Shutterfly Consumer Net Revenue	\$166 to \$170
Lifetouch Net Revenue	\$255 to \$258
SBS Net Revenue	\$48 to \$51
Cost of Net Revenue	\$230 to \$235
Gross Profit	\$239 to \$244
Gross Profit Margin	51%
Operating Income	\$0 to \$5.0
Stock-based Compensation	\$13
Amortization of Intangible Assets	\$13
Depreciation	\$33
Adjusted EBITDA ³	\$59 to \$64
Effective Tax Rate	22.0%
Net Loss per Share	(\$0.27) to (\$0.17)
Diluted Shares	34.5

¹ Excludes any costs related to restructuring, and executive transition and strategic review.

² The Company's business outlook is composed entirely of non-GAAP measures. The Company considers it unreasonable difficult to reconcile its outlook to comparable GAAP measures.

³ Adjusted EBITDA is a Non-GAAP measure defined as earnings before interest, taxes, depreciation, amortization, stock-based compensation, restructuring, acquisition-related costs, and executive transition and strategic review costs.

2019 Shutterfly Guidance^{1,2}

(\$ and shares in Millions, except per share amounts)

	<u>Non-GAAP FY19</u>
Net Revenue	\$2,130 to \$2,210
Shutterfly Consumer Net Revenue	\$975 to \$1,025
Lifetouch Net Revenue	\$915 to \$935
SBS Net Revenue	\$240 to \$250
Cost of Net Revenue	\$1,035 to \$1,067
Gross Profit	\$1,095 to \$1,143
Gross Profit Margin	51.4% to 51.7%
Operating Income	\$80 to \$105
Stock-based Compensation	\$50
Amortization of Intangible Assets	\$51
Depreciation	\$133
Adjusted EBITDA ³	\$315 to \$340
Effective Tax Rate	30.0%
Net Income per Share	\$0.61 to \$1.11
Diluted Shares	34.8
Capital Expenditures	\$125 to \$130

¹ Excludes any costs related to restructuring, executive transition and strategic review, and any non-recurring charges related to the \$200 million debt repayment made in January 2019.

² 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.

³ Adjusted EBITDA is a Non-GAAP measure defined as earnings before interest, taxes, depreciation, amortization, stock-based compensation, restructuring, acquisition-related costs, and executive transition and strategic review costs.

Q&A

Appendix

Reconciliation of Non-GAAP Adjusted EBITDA

(\$ in millions)	<u>Q1'19</u>	<u>Q1'18</u>
GAAP net loss	(\$83.6)	(\$27.2)
Interest expense, net	17.1	7.9
Tax benefit	(39.2)	(14.8)
Depreciation and amortization	42.2	24.9
Stock-based compensation expense	11.1	11.7
Restructuring charges	4.0	-
Executive transition and strategic review	2.6	-
Acquisition-related costs	-	-
Purchase accounting adjustments	0.6	4.6
Non-GAAP Adjusted EBITDA	<u>(\$45.3)</u>	<u>\$7.1</u>

Shutterfly Consumer Net Revenue by Brand

(\$ in Millions)

	Three Months Ended				Year Ended	
	Mar. 31, 2018 ¹	Jun. 30, 2018 ¹	Sep. 30, 2018 ¹	Dec. 31, 2018 ¹	Mar. 31, 2019	Dec. 31, 2018 ¹
Shutterfly Consumer net revenue						
Shutterfly Brand Core	\$ 111.7	\$ 116.0	\$ 85.5	\$ 369.0	\$ 105.1	\$ 682.2
Shutterfly Brand PGHD	31.0	38.2	30.0	110.1	34.6	209.3
Tiny Prints Boutique	2.1	1.4	1.4	40.0	1.7	44.9
Other	7.3	9.4	9.9	8.8	7.5	35.4
Total	<u>\$ 152.1</u>	<u>\$ 165.0</u>	<u>\$ 126.9</u>	<u>\$ 527.9</u>	<u>\$ 148.8</u>	<u>\$ 971.8</u>

¹This 2018 quarterly net revenue by brand table has been updated to allocate order-to-billed adjustments to each brand of Shutterfly Consumer net revenue.