



# Q1 2016 Earnings Conference Call

April 27, 2016

Phil Marineau, Interim CEO and Chairman

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 about our plans for 2016 and beyond and our business outlook for the second quarter and full year 2016 and statements about historical results that may suggest trends for our business. 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 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, including our next generation Shutterfly platform; unforeseen difficulties executing on planned strategic restructuring activities; 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 our SEC filings, including our most recent Form 10-K and 10-Q, which are available on the Securities and Exchange Commission's Web site 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 and stock-based compensation. We define Free Cash Flows as Adjusted EBITDA less purchases of property, plant and equipment and capitalization of software and website development 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.

# Q1 FY16 Financial Results Review



Phil Marineau

- Q1 Summary
- Shutterfly 3.0 and CEO Update



Mike Pope

- Q1 Financials
- Q2 and 2016 Guidance

# Q1'16 Summary

## FINANCIALS

- Met or exceeded guidance on all major metrics
- Reiterating guidance for the full year 2016 with updated tax rate

## BUSINESS

- Excellent progress in Consumer mobile
- Shutterfly Business Solutions (SBS) segment revenues and gross margin more than doubled year-over-year

## STRATEGIC

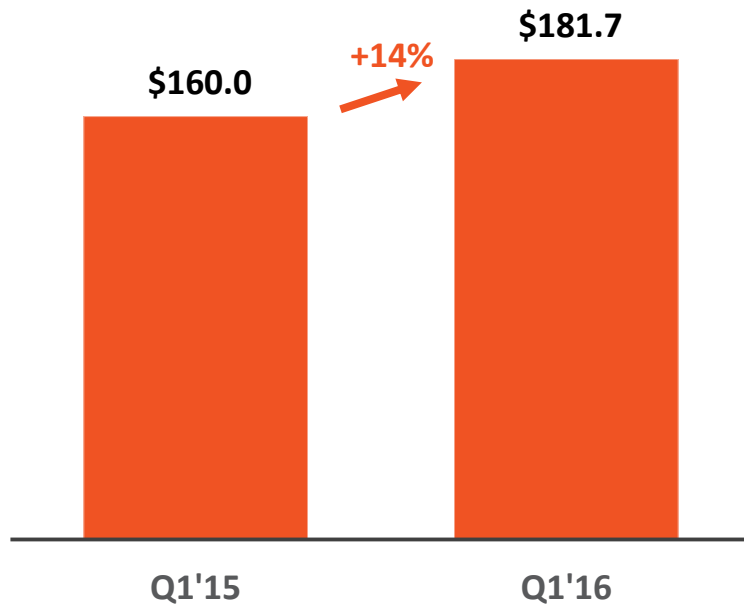
- Shutterfly 3.0 progressing – Phase One underway
- Progress on fully integrated end-to-end SBS solution

## ORGANIZATION

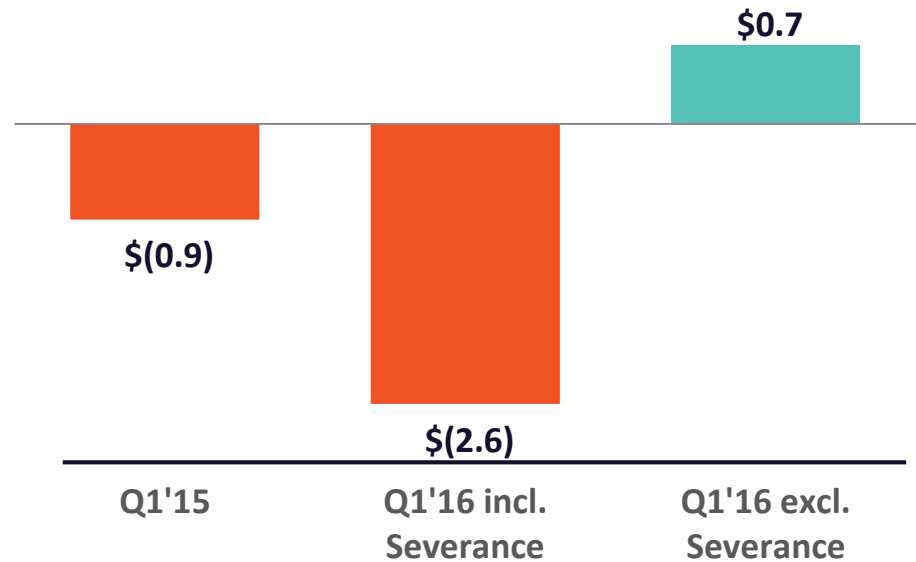
- Hired new CEO - Chris North (Amazon UK) to start on May 31<sup>st</sup>

# Financial Summary

## Total Revenues



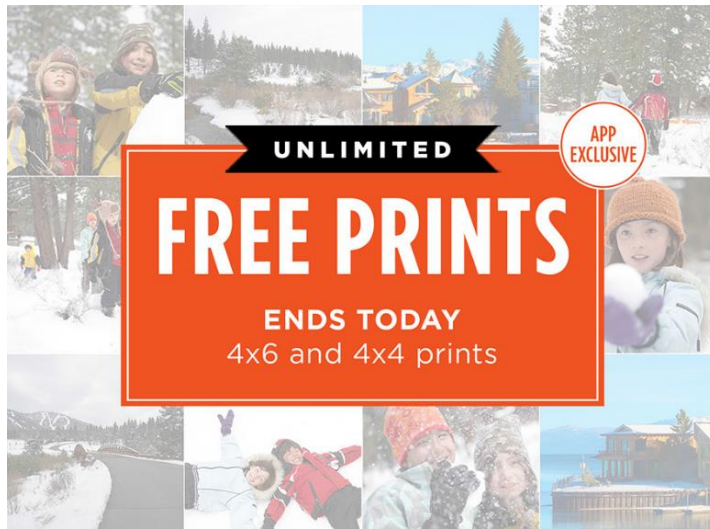
## Adj. EBITDA



Revenue growth driven by Shutterfly brand and SBS.  
Adjusted EBITDA (excl. severance) improved to \$0.7 million.

# Consumer Segment

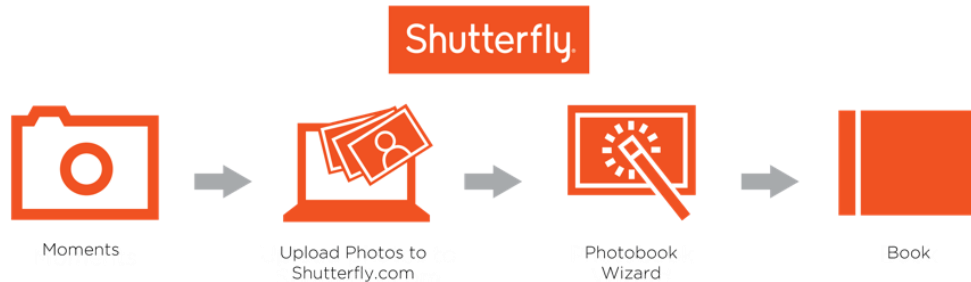
Shutterfly brand executed a successful mobile strategy around unlimited free prints that efficiently drove new customers via the app:



- **1M** downloads of the Shutterfly app
- **2.7x** more customers from app vs. Q1-15
- **20%** of Shutterfly brand revenue from mobile

Revenues were up 4% to \$155 million, led by nearly double digit growth in the Shutterfly brand.

# SBS Segment



- **135%** revenue growth to \$26M YOY
- **25.1%** gross margin, from 11.6% YOY
- New **Fortune 250** customer

Increasing scale, operating leverage and process efficiencies while building platform to provide a fully integrated system with end-to-end marketing solutions.

# Shutterfly 3.0 Update



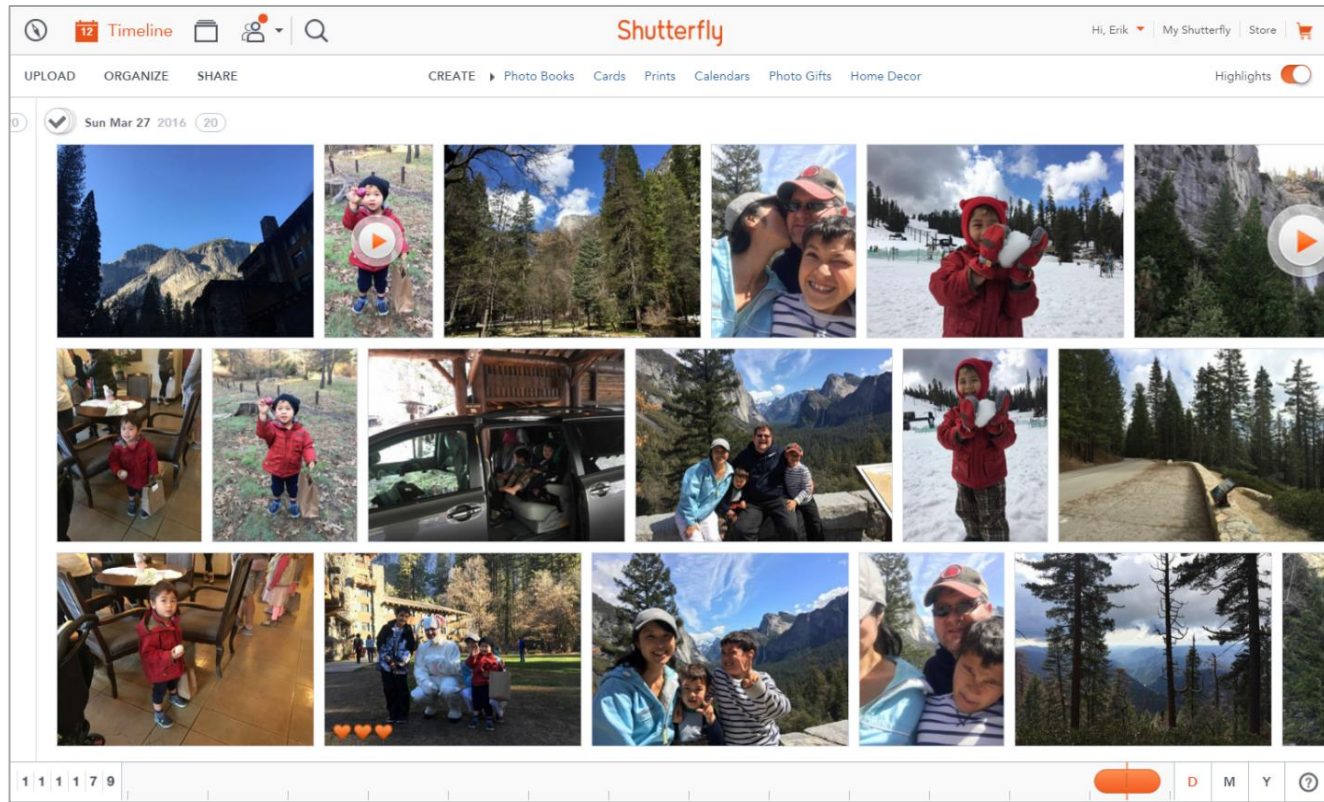
- Phase One, migrating users from ThisLife to the All New Shutterfly, underway
- Beginning migration of Shutterfly users to the All New Shutterfly
- Users will be able to effortlessly gather, quickly find, easily create – and enjoy – their photos!

Our vision for 3.0 is to build a platform and device-agnostic world-class memory management service connected to the smartest personalized ecommerce solution.



# Shutterfly 3.0: New Photos Service

View  
photos  
by  
albums  
or  
timeline



Our new Photos Service incorporates ThisLife features including search and organization tools in a modern, intuitive user interface.

# CEO Chris North

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- Consumer-driven strategist
- E-commerce expertise
- Grew Amazon UK to \$9B
- Led large, high performing teams
- Good cultural fit

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Chris is joining Shutterfly on May 31<sup>st</sup>.

# Q1 FY16 Financial Results Review

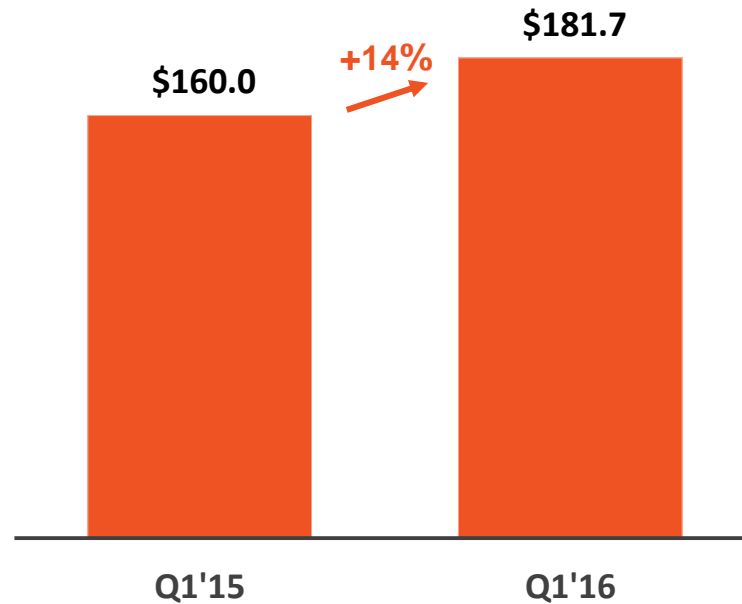
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Mike Pope, CFO

# Q1 Revenue

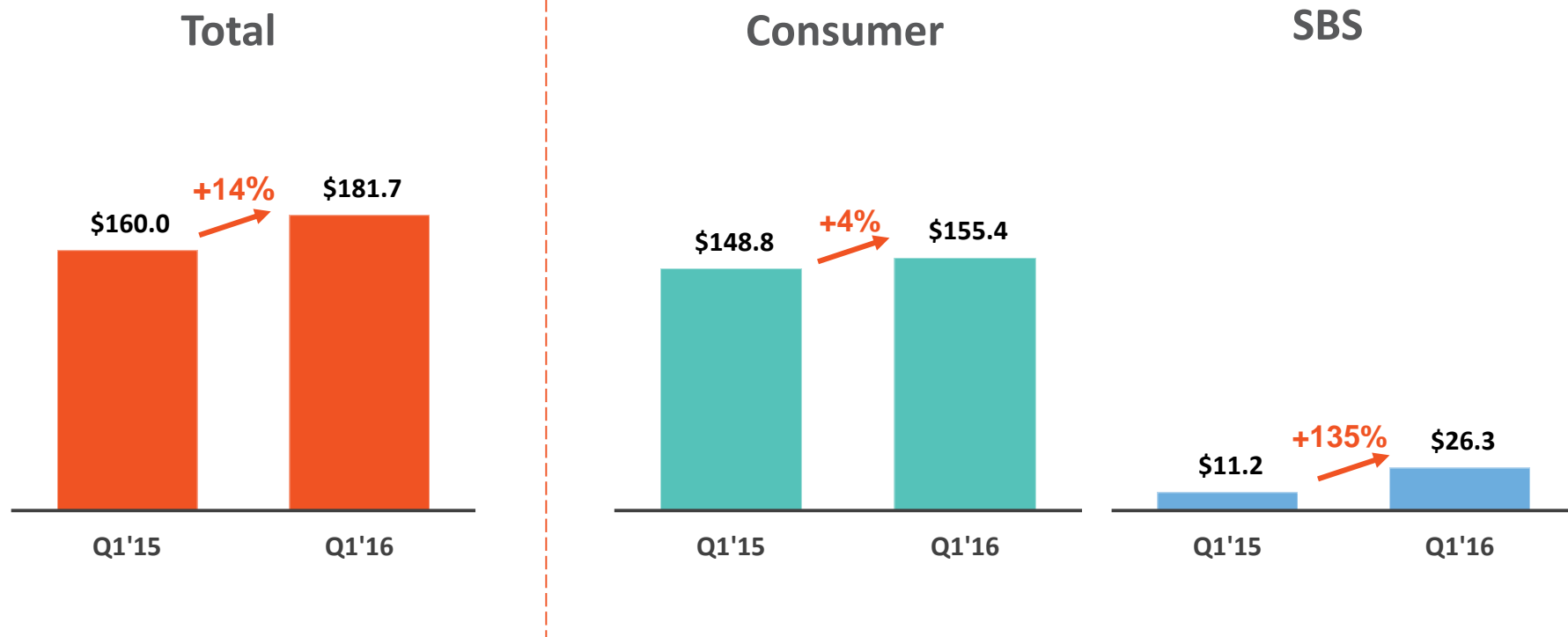
(\$ in Millions)



Revenue exceeded midpoint of guidance by \$5.2 million.

# Q1 Revenue by Segment

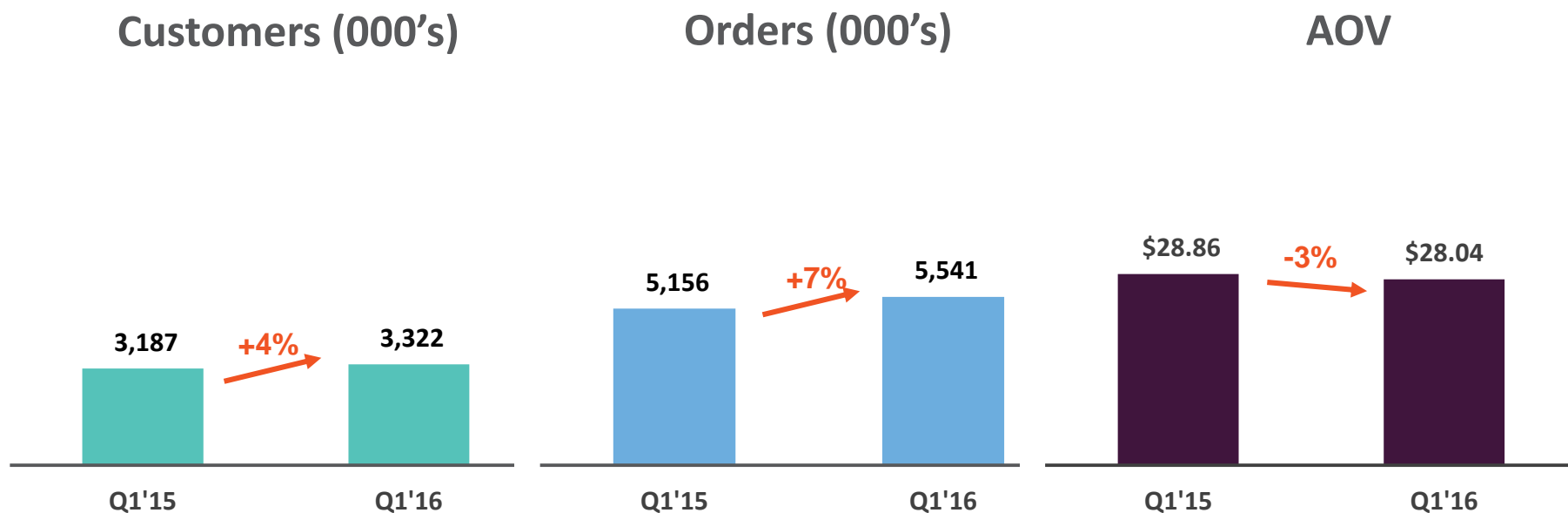
(\$ in Millions)



Shutterfly Business Solutions segment revenues more than doubled year-over-year.

# Q1 Consumer Metrics

(\$ in Millions)



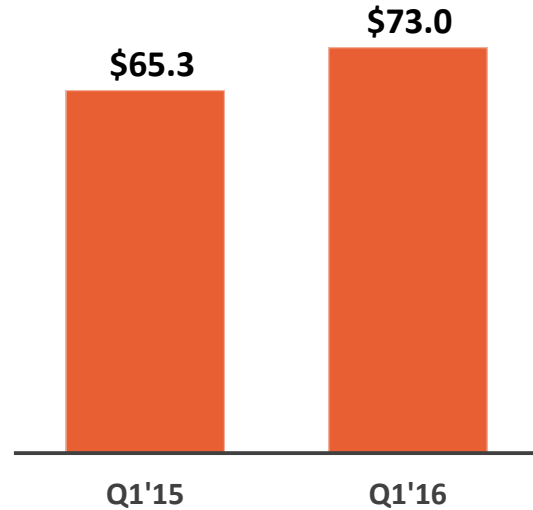
AOV decline reflects impact of mobile promotional activity.

\* Average order value excludes SBS revenues.

# Q1 Gross Margin by Segment

(\$ in Millions)

## Total

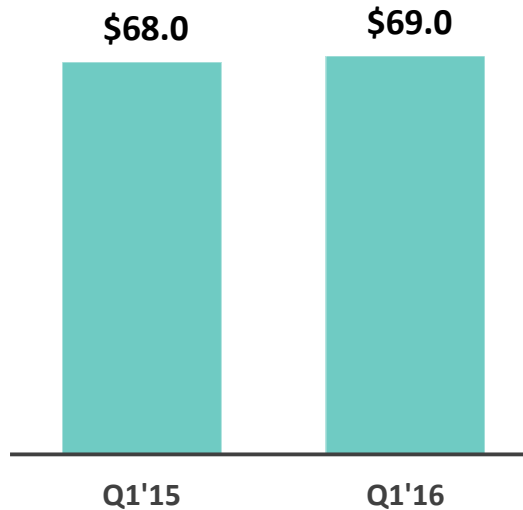


GM%

40.8%

40.2%

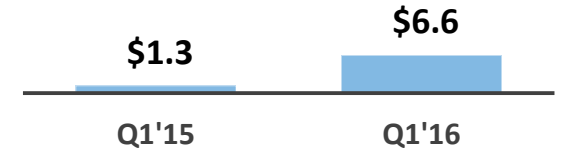
## Consumer



45.7%

44.4%

## SBS



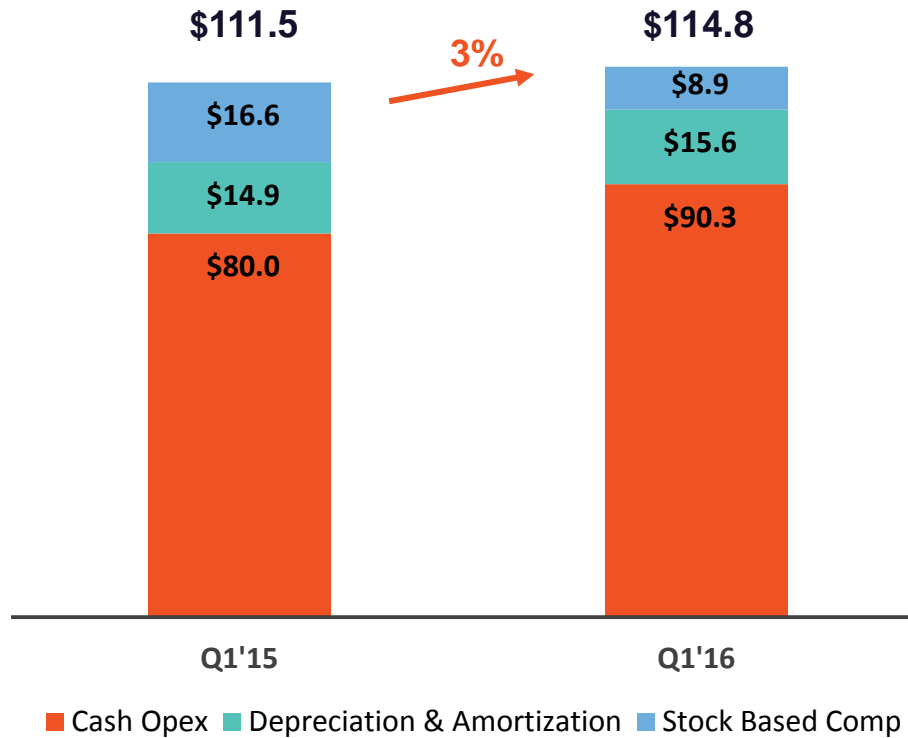
11.6%

25.1%

Margin decrease driven by higher mix of SBS revenue and mobile promotional activity.

# Q1 Total Operating Expenses

(\$ in Millions)

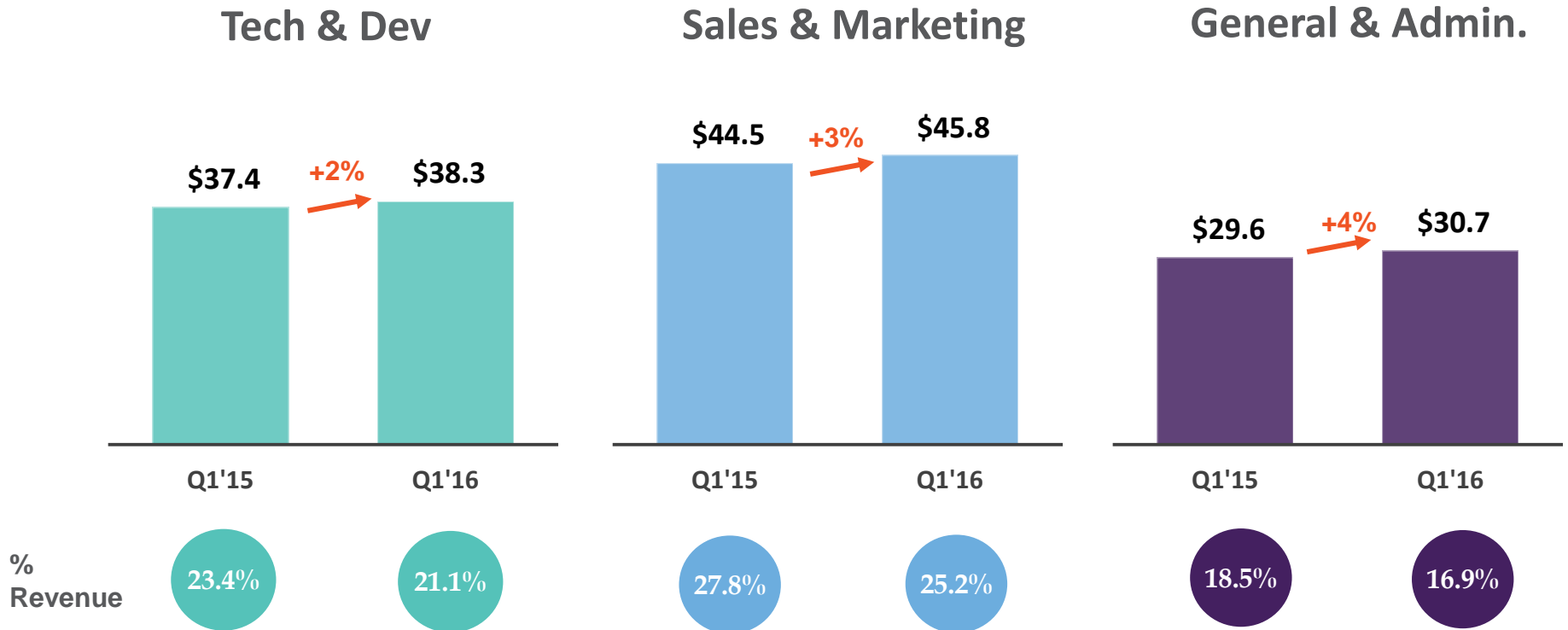


Operating expenses include \$3.3M of severance related to executive departures.



# Q1 Operating Expenses by Category

(\$ in Millions)

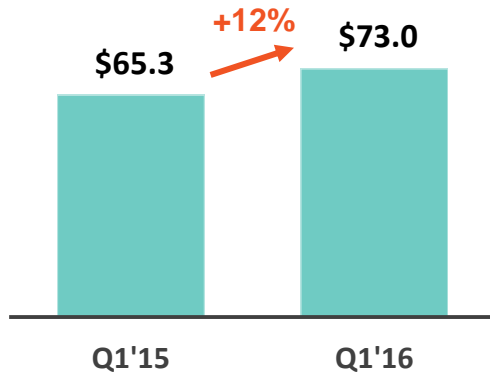


Excluding executive severance charge, G&A decreased 7% from Q1 of last year.

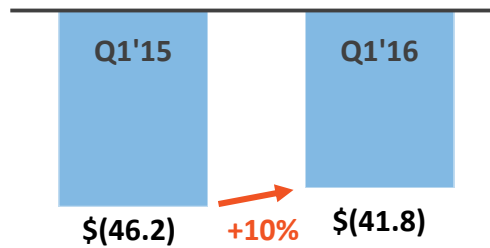
# Q1 Profitability

(\$ in Millions)

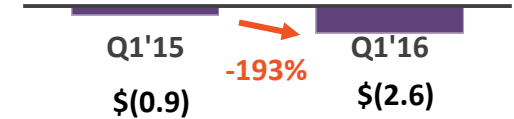
## Gross Profit



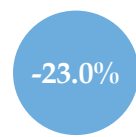
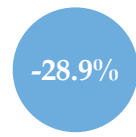
## Operating Loss



## Adjusted EBITDA\*



% Revenue



Adjusted EBITDA excluding executive severance would have been a profit of \$0.7 million, \$1.6 million better than Q1'15.

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

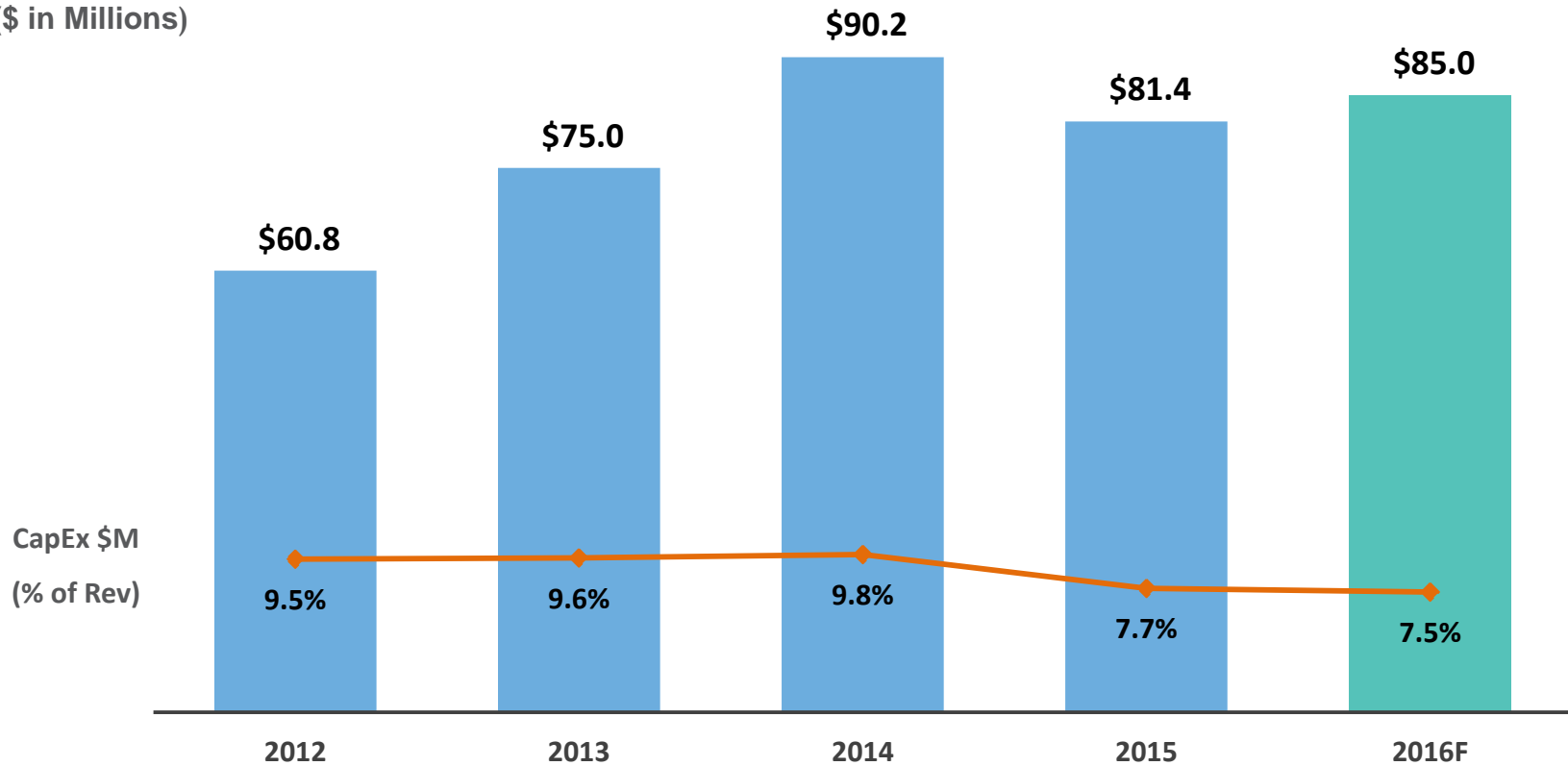
# Q1 Profitability

(\$ in millions except per share amounts)	Q1 FY16	Q1 FY15	Change (Y/Y)
<b>Net Revenue</b>	<b>\$181.7</b>	<b>\$160.0</b>	<b>14%</b>
<b>Gross Profit</b>	<b>\$73.0</b>	<b>\$65.3</b>	<b>12%</b>
<i>Gross Margin</i>	<i>40.2%</i>	<i>40.8%</i>	
<b>Operating Loss</b>	<b>\$(41.8)</b>	<b>\$(46.2)</b>	<b>10%</b>
<i>Operating Margin</i>	<i>(23.0%)</i>	<i>(28.9%)</i>	
<b>Adjusted EBITDA*</b>	<b>\$(2.6)</b>	<b>\$(0.9)</b>	<b>(193%)</b>
<i>Adjusted EBITDA Margin</i>	<i>(1.4%)</i>	<i>(0.5%)</i>	
<b>Tax Rate</b>	<b>(37.9%)</b>	<b>(11.3%)</b>	
<b>Net Loss</b>	<b>\$(29.4)</b>	<b>\$(45.1)</b>	<b>35%</b>
<b>Diluted Shares (M)</b>	<b>34.6</b>	<b>38.0</b>	<b>(9%)</b>
<b>Net Loss per Share</b>	<b>\$(0.85)</b>	<b>\$(1.19)</b>	<b>29%</b>

\*Adjusted EBITDA is a Non-GAAP measure and is defined as earnings before interest, taxes, depreciation, amortization and stock-based compensation. Adjusted EBITDA excluding executive severance of \$3.3M is \$0.7M or 0.4% of net revenue.

# Annual Capital Expenditures

(\$ in Millions)

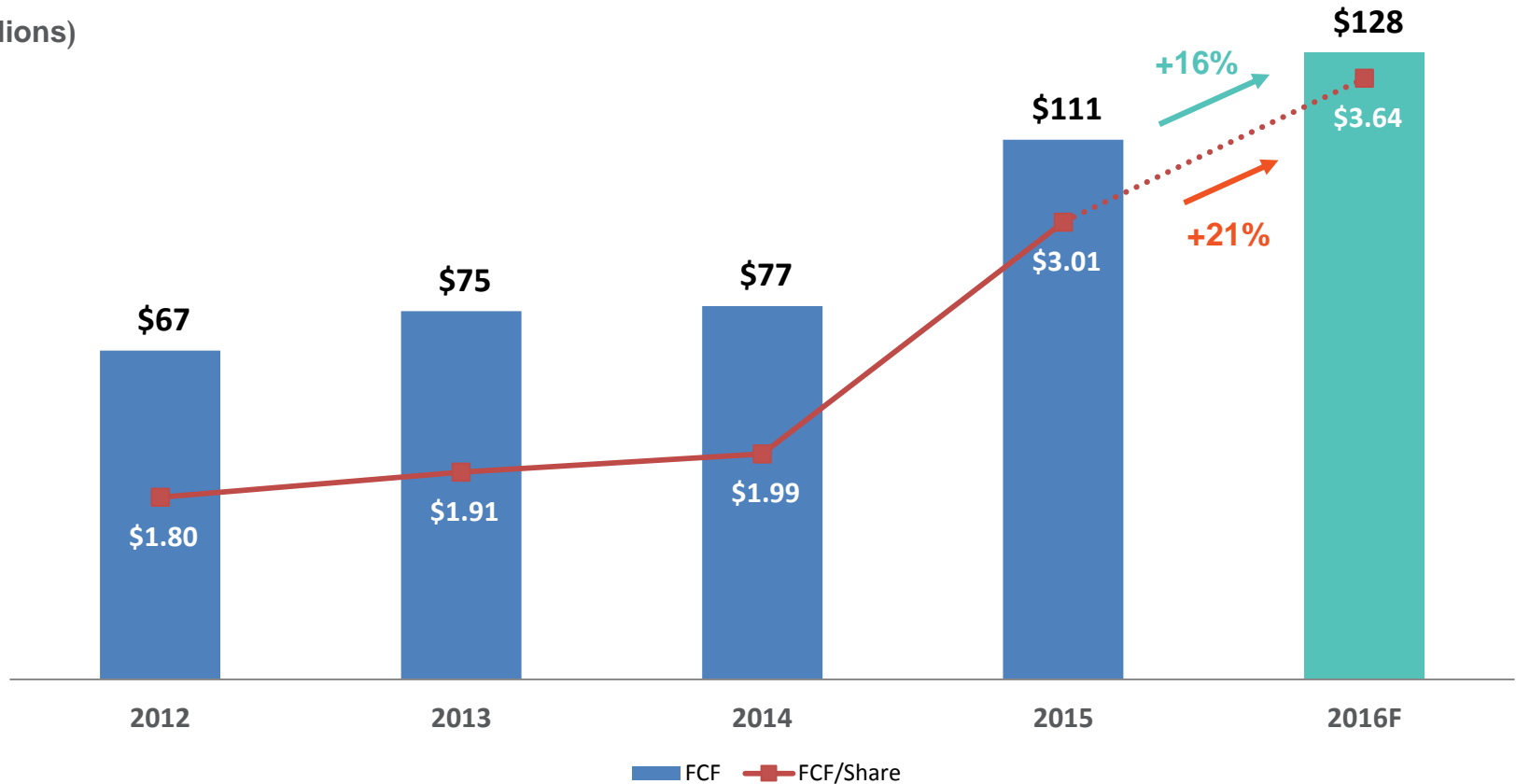


Q1 capital expenditures totaled \$13.7 million.

FY16 CapEx expected to be 7.5% of total net revenue or \$85 million at the midpoint of our guidance range.

# Annual Free Cash Flow

(\$ in Millions)

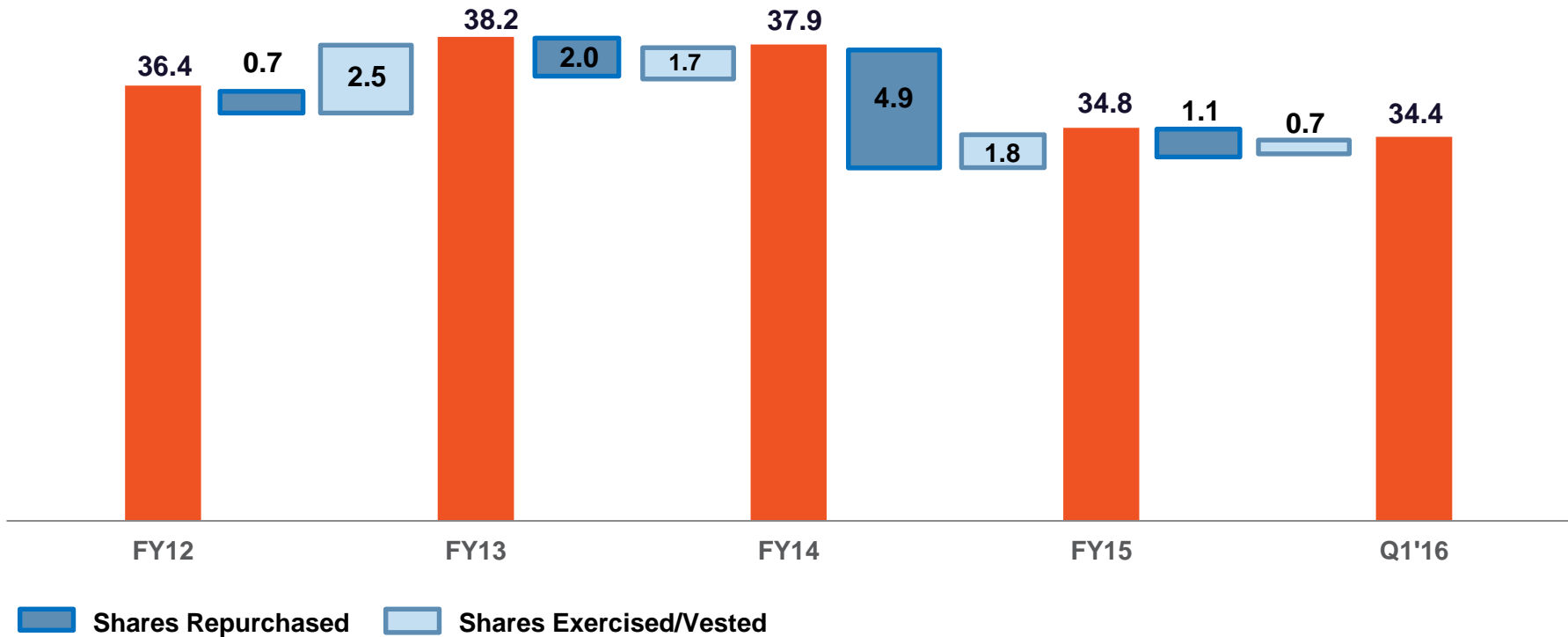


FY16 free cash flow\* expected to grow 16% YoY at the midpoint of our guidance range.

\*Free Cash Flow is a Non-GAAP measure and is defined as Adjusted EBITDA less capital expenditures.

# Shares Outstanding Trend

(in Millions)



On April 21, 2016, Shutterfly Board of Directors authorized the repurchase of up to \$100 million in addition to the \$48 million under the existing plan.

# Q2 FY16 Guidance (as of April 27, 2016)

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

	Q2 FY16
Net Revenues	\$195.0 to \$202.0
<i>Year-over-year Growth</i>	<i>6.0% to 9.9%</i>
Gross Profit Margin	44.8% to 45.3%
Operating Loss	\$(31.2) to \$(28.6)
Adjusted EBITDA *	\$10.0 to \$13.0
Effective Tax Rate	36.0% to 37.5%
Net Loss per Share	\$(0.69) to \$(0.62)
Basic Shares (weighted avg. in M)	34.3

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

# 2016 Guidance (as of April 27, 2016)

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

	FY16
Net Revenues	\$1,120 to \$1,160
<i>Year-over-year Growth</i>	<i>5.7% to 9.5%</i>
Gross Profit Margin	50.9% to 51.7%
Operating Income	\$32.6 to \$53.9
Adjusted EBITDA *	\$203.9 to \$222.9
<i>Year-over-year Growth</i>	<i>6.2% to 16.1%</i>
Adjusted EBITDA Margin*	18.2% to 19.2%
Effective Tax Rate	36.0% to 37.5%
Net Income per Share	\$0.19 to \$0.58
Diluted Shares (weighted avg. in M)	35.3
Capital Expenditures	\$80.0 to \$90.0
<i>% of Net Revenue</i>	<i>7.1% to 7.8%</i>
Free Cash Flow**	\$124.0 to \$132.9

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

\*\*Free Cash Flow is a Non-GAAP measure and is defined as Adjusted EBITDA less capital expenditures.



SHUTTERFLY  INC

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Q&A

# Reconciliation of Non-GAAP Gross Margin

(\$ in millions)

	<u>Q1 FY16</u>	<u>Q1 FY1 5</u>
<b>Reconciliation of Non-GAAP Gross Margin</b>		
GAAP gross profit	\$73.0	\$65.3
Stock-based compensation	1.2	1.2
Amortization of intangible assets	1.5	2.8
Non-GAAP gross profit	<u>\$75.7</u>	<u>\$69.3</u>

# Reconciliation of Non-GAAP Adjusted EBITDA

(\$ in millions)	<u>Q1 FY16</u>	<u>Q1 FY15</u>
<b>Reconciliation of Non-GAAP Adjusted EBITDA</b>		
GAAP net loss	\$(29.4)	\$(45.1)
Interest expense / (income), net	5.6	4.6
Tax benefit	(17.9)	(5.8)
Depreciation and amortization	29.0	27.6
Stock-based compensation expense	10.1	17.8
Non-GAAP Adjusted EBITDA	<u>\$(2.6)</u>	<u>\$(0.9)</u>

## Reconciliation of Cash Flows from Operations To Non-GAAP Adjusted EBITDA

Net cash used in operations	\$(83.9)	\$(107.7)
Interest expense / (income), net	5.6	4.6
Tax benefit	(17.9)	(5.8)
Changes in operating assets/liabilities	99.9	113.1
Other adjustments	(6.3)	(5.1)
Non-GAAP Adjusted EBITDA	<u>\$(2.6)</u>	<u>\$(0.9)</u>