



Q2 2018 Earnings Conference Call

August 7, 2018

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 our plans to leverage the Shutterfly Photos Platform for Lifetouch; our focus on achieving more significant technology integration and revenue synergies in 2019; our expectations of improving SBS margins in the second half of 2018; and our quarterly and annual guidance targets for the remainder of 2018. 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. 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 revenue, 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.

Q2'18 Earnings Call Agenda



- Q2'18 business review

- Q2'18 financials
- Capital Update
- Financial Outlook

Q2'18 Summary

FINANCIALS

- Exceeded guidance targets on top level metrics
- Settled \$300 million Convertible Notes

BUSINESS

- Lifetouch driver of Q2 performance
- Shutterfly Consumer continued progress in mobile
- Strong SBS revenue growth

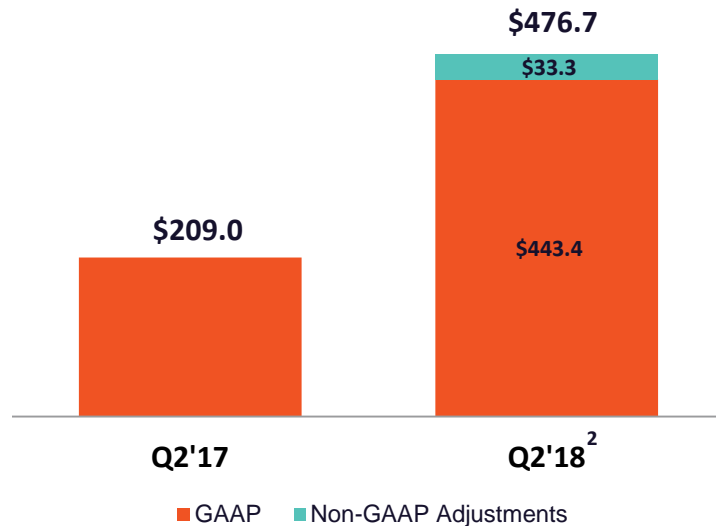
STRATEGIC

- New categories launched - Kids and Pets
- Enhancements to Shutterfly app
- Mix shift from away from free promotions toward paid higher value purchases
- Completed divestiture of iMemories

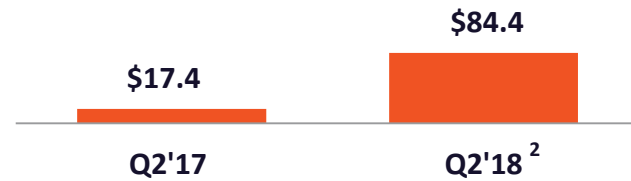
Q2'18 Financial Summary

(\$ in Millions)

Total Net Revenue

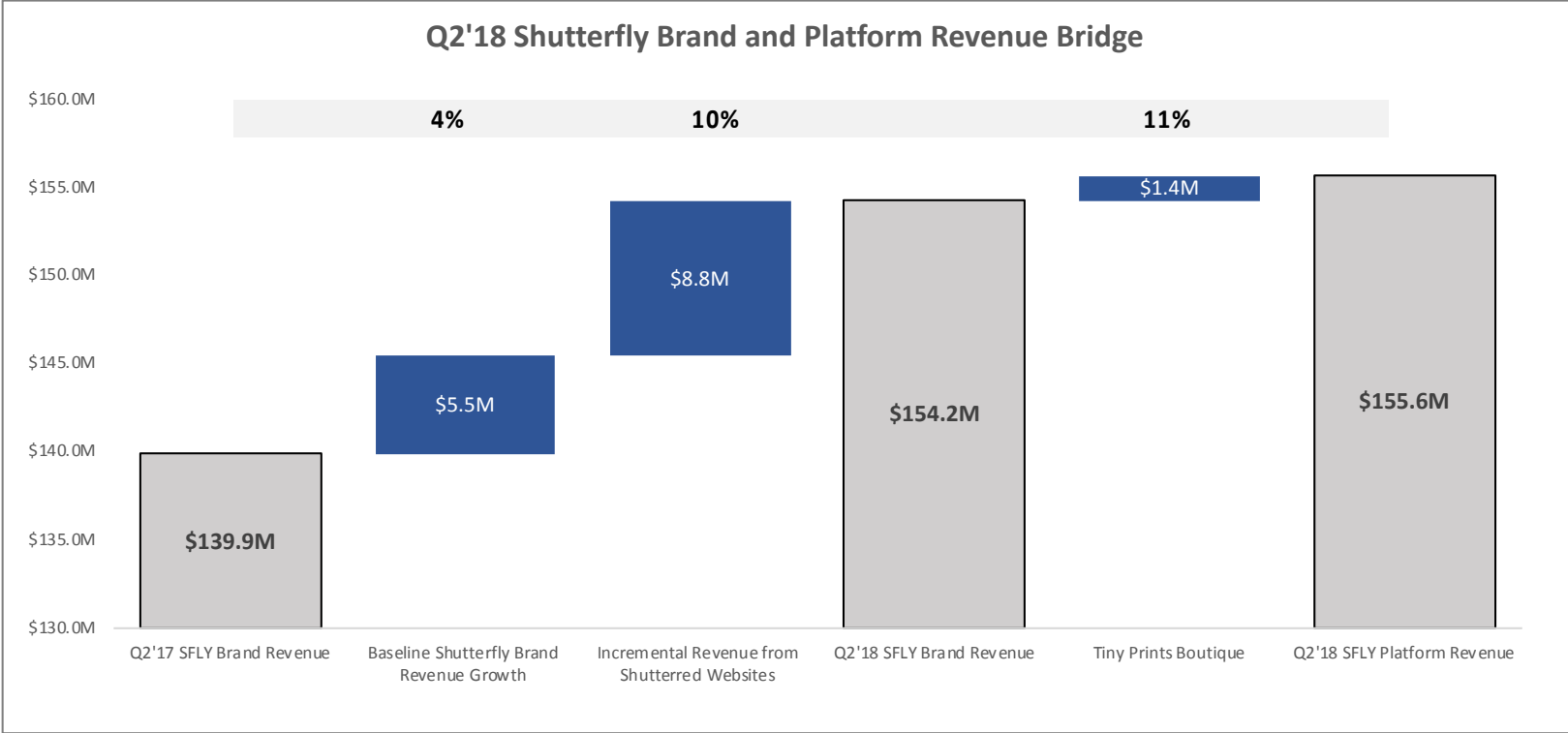


Adj. EBITDA¹



Exceeded expectations on top-level metrics.

Shutterfly Brand Growth



Shutterfly brand organic growth driven by Cards & Stationery and paid segment of Personalized Gifts and Home Décor. See Appendix for additional details.

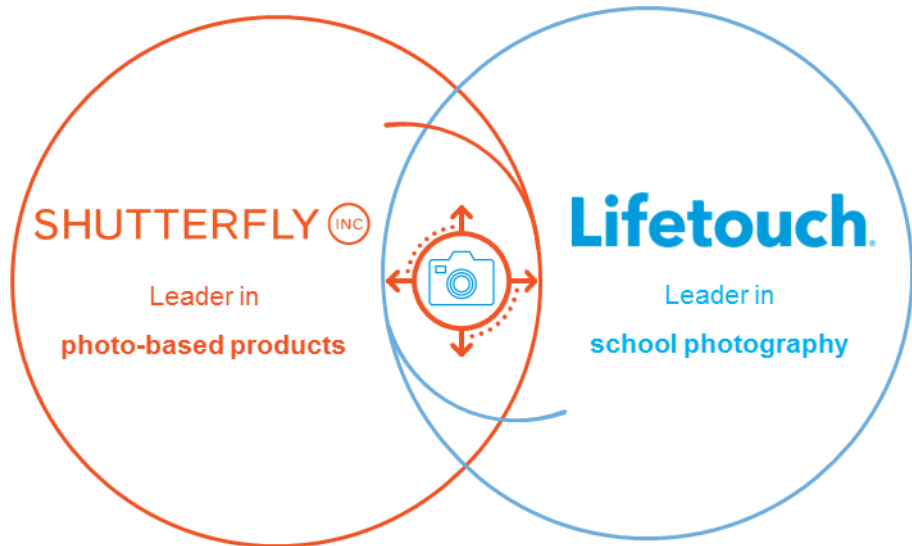
Shutterfly Consumer



- **Kids** and **Pets** categories launch
- Accelerated **pace of new product** introduction
- **Mobile** up 410 basis points to 29.4% of Q2'18 Shutterfly brand
- Enhanced user experience and expanded product range **in app**
- **1M+ app downloads**, and attractive customer acquisition costs

Good progress against strategic growth initiatives.

Lifetouch



- Lifetouch revenue of **\$261.9M** in Q2'18
- **Schools** driven by Spring, yearbooks, and senior graduation Photography
- Ready for **Fall School picture day**
- **Integration plans** leverage Shutterfly Photos Platform
- More significant technology integration and revenue **synergies** in 2019

We were pleased with the Lifetouch performance in their first quarter as part of Shutterfly.

Strong Growth in SBS



- SBS revenue of **\$49.8M** in Q2'18
- Growth driven by **major multi-year deal** signed in Q3'17
- Ramped volumes more rapidly than planned in Q2
- On-track to **improve margins** in second half of 2018

Q2'18 SBS growth of 66% as volumes ramped more than expected.

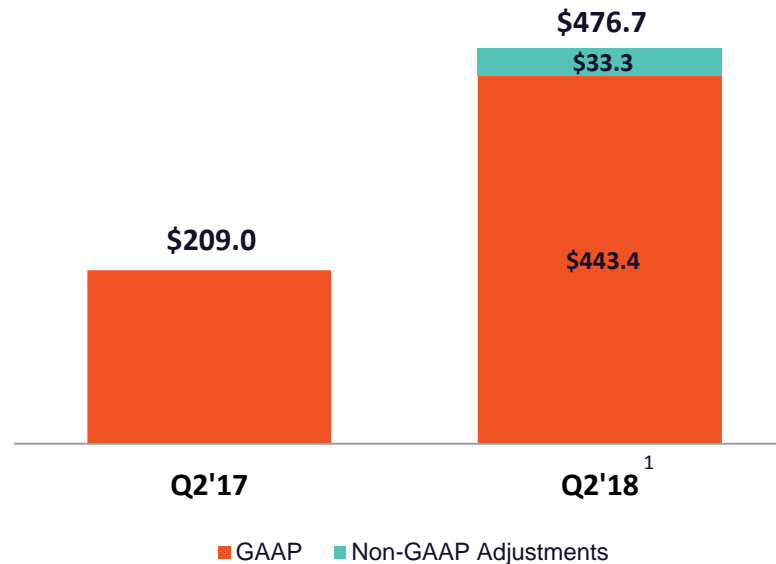
Q2'18 Financial Results Review



Mike Pope, CFO

Q2'18 Net Revenue

(\$ in Millions)

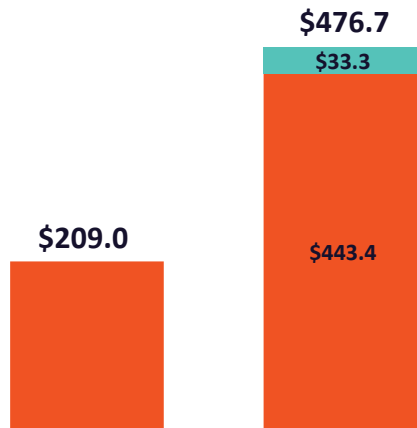


Non-GAAP net revenue of \$476.7 million above expectations driven by strong performance in Lifetouch and SBS.

Q2'18 Net Revenue by Segment

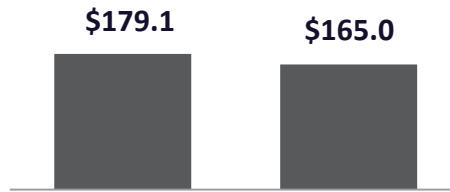
(\$ in Millions)

Total

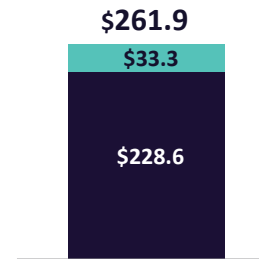


■ GAAP
■ Non-GAAP Adjustments

Shutterfly Consumer



Lifetouch



■ GAAP
■ Non-GAAP Adjustments

SBS



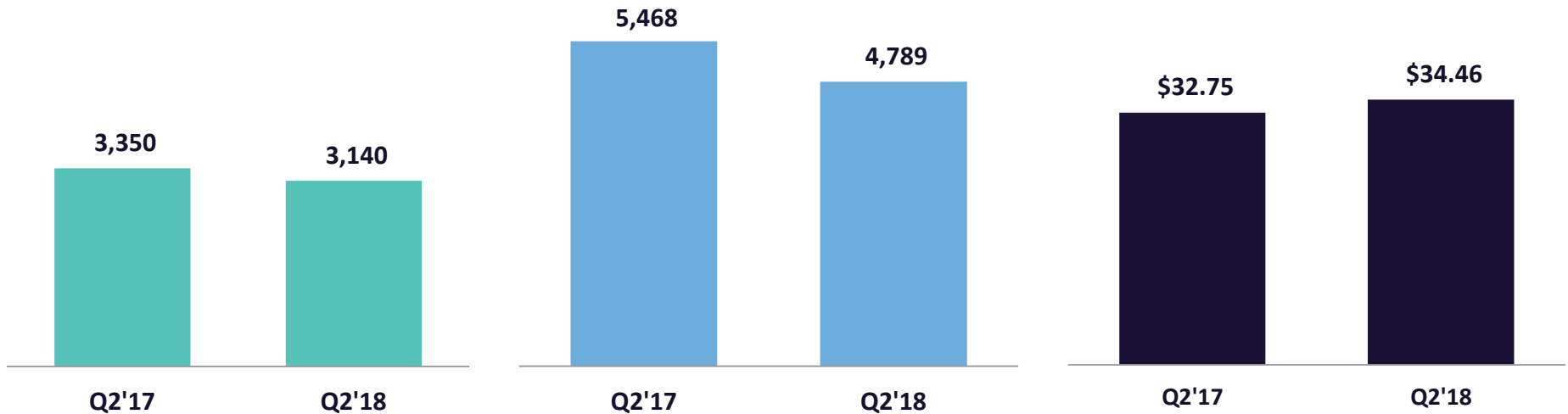
In Shutterfly Consumer, growth in the Shutterfly brand offset by anticipated revenue declines in the non-Shutterfly brands due to the 2017 platform consolidation and brand shutdowns.

Q2'18 Shutterfly Consumer Metrics

Active Customers (000's)

Orders (000's)

Average Order Value ¹

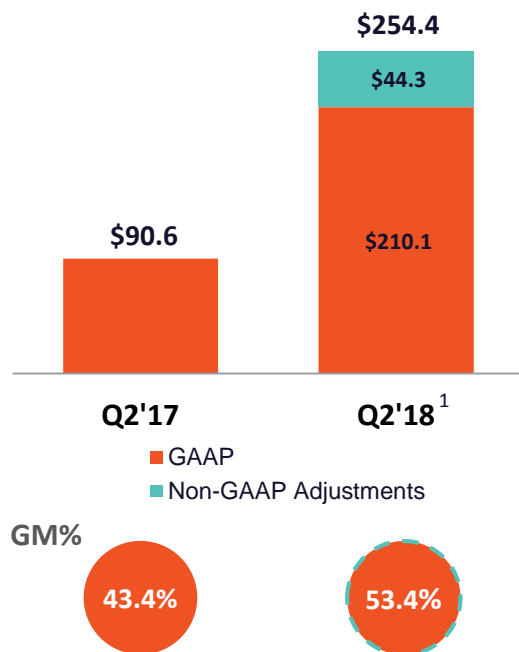


Customers and orders decreased due to 2017 platform consolidation and mix shift away from free products; AOV increased due to reduction of free and a more targeted promotion strategy.

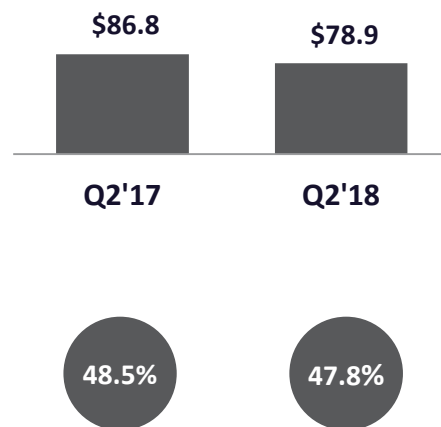
Q2'18 Gross Profit by Segment

(\$ in Millions)

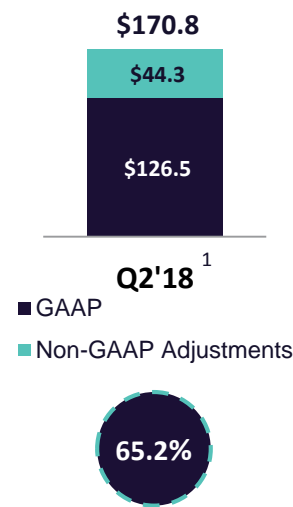
Total



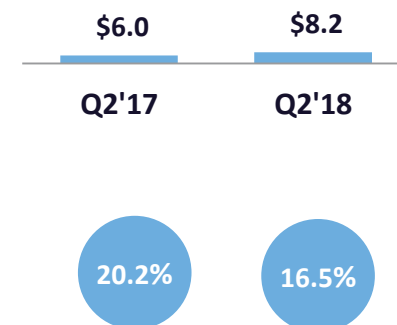
Shutterfly Consumer²



Lifetouch²



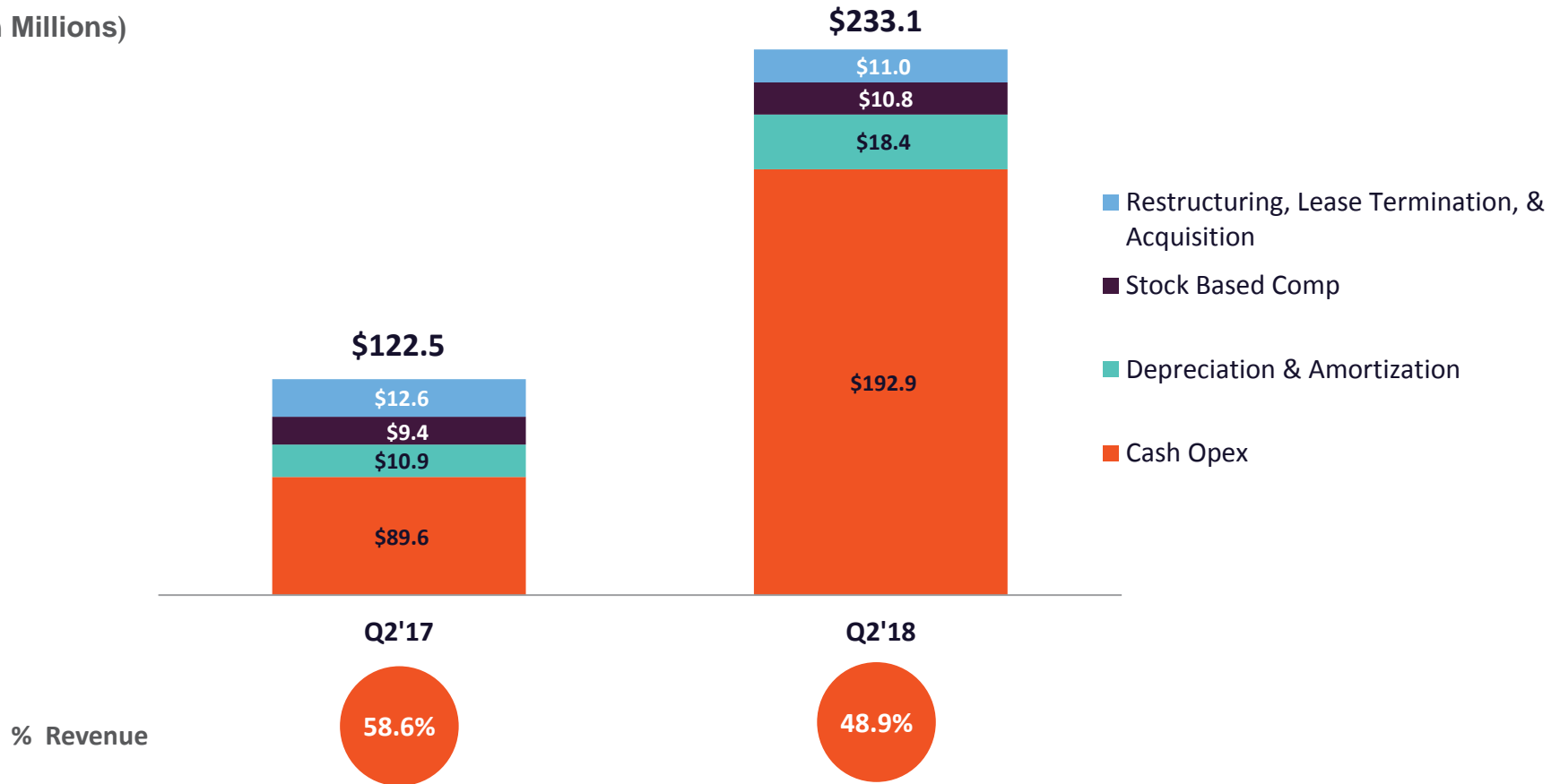
SBS²



Non-GAAP gross margin of 53.4% above expectations.

Q2'18 Total Operating Expenses

(\$ in Millions)



Operating expenses include Lifetouch in Q2'18.

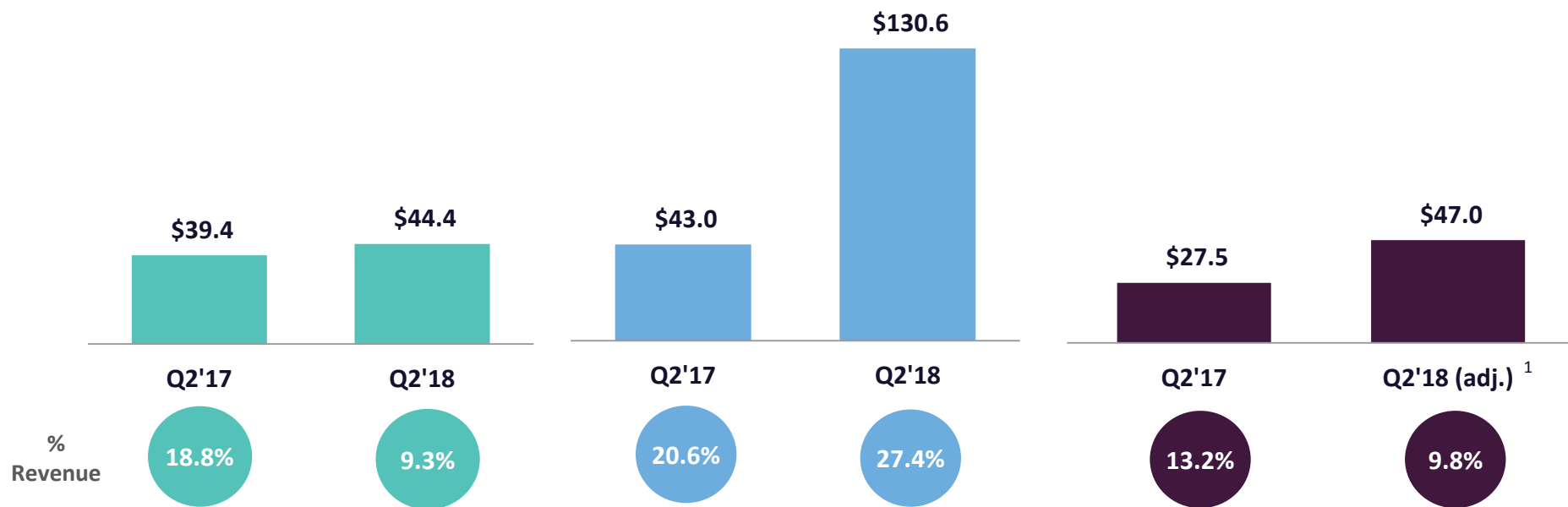
Q2'18 Operating Expenses by Category

(\$ in Millions)

Technology & Development

Sales & Marketing

General & Administrative



Operating Expenses increased due to Lifetouch, offset by the benefits of the platform consolidation.

¹Normalized for acquisition-related charges of \$8.0 million in the second quarter of 2018.

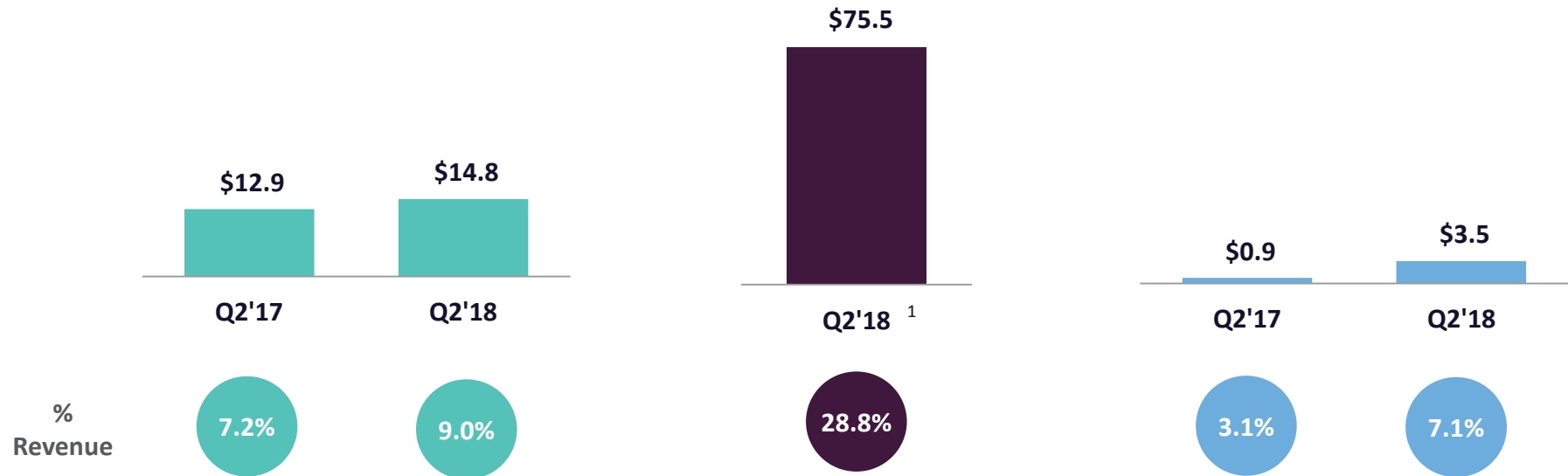
Q2'18 Segment Margin

(\$ in Millions)

Shutterfly Consumer

Lifetouch

SBS

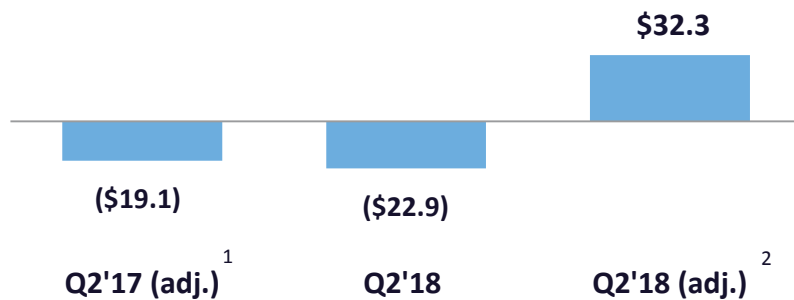


Lifetouch was a significant driver of profitability in the second quarter.

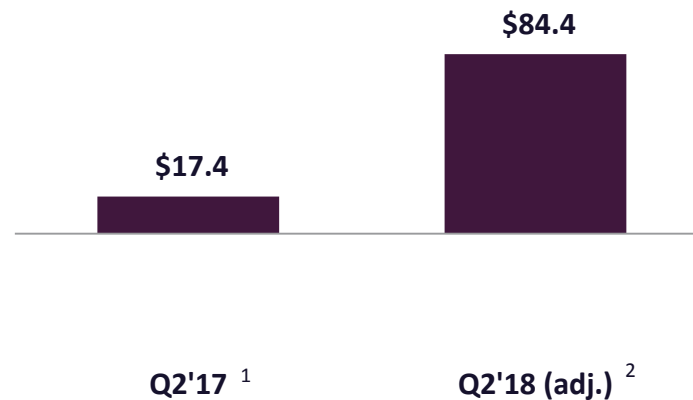
Q2'18 Profitability

(\$ in Millions)

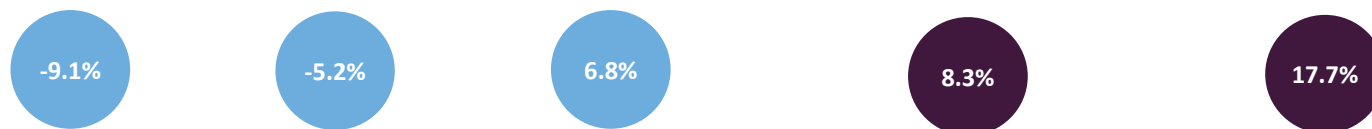
Operating Income (Loss)



Adjusted EBITDA³



%
Revenue



Q2'18 Adjusted EBITDA was \$84.4 million.

¹Normalized for restructuring charges of \$4.7 million and capital lease termination charges of \$8.1 million in the second quarter of 2017.

²Normalized for restructuring charges of \$3.0 million, acquisition-related charges of \$8.0 million, and purchase accounting adjustments related to the write-down of deferred revenue of \$33.3 million and the write-up of inventory of \$10.9 million in the second quarter of 2018.

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

Q2'18 Profitability

(\$ in millions except per share amounts)

	Q2 FY18 GAAP	Q2 FY18 Non-GAAP ¹
Net Revenue	\$443.4	\$476.7
Gross Profit	\$210.1	\$254.4
<i>Gross Margin</i>	47.4%	53.4%
Operating Income (Loss)	(\$22.9)	\$32.3
<i>Operating Margin</i>	(5.2%)	6.8%
Adjusted EBITDA ²	\$29.2	\$84.4
<i>Adjusted EBITDA Margin</i>	6.6%	17.7%
Income (Loss) before Taxes	(\$39.1)	\$16.1
Benefit from (Provision for) Income Taxes	\$12.6	(\$2.6)
<i>Tax Rate</i>	32.2%	15.9%
Net Income (Loss)	(\$26.5)	\$13.6
Diluted Shares (in millions)	33.2	35.8
Net Income (Loss) per Share	(\$0.80)	\$0.38

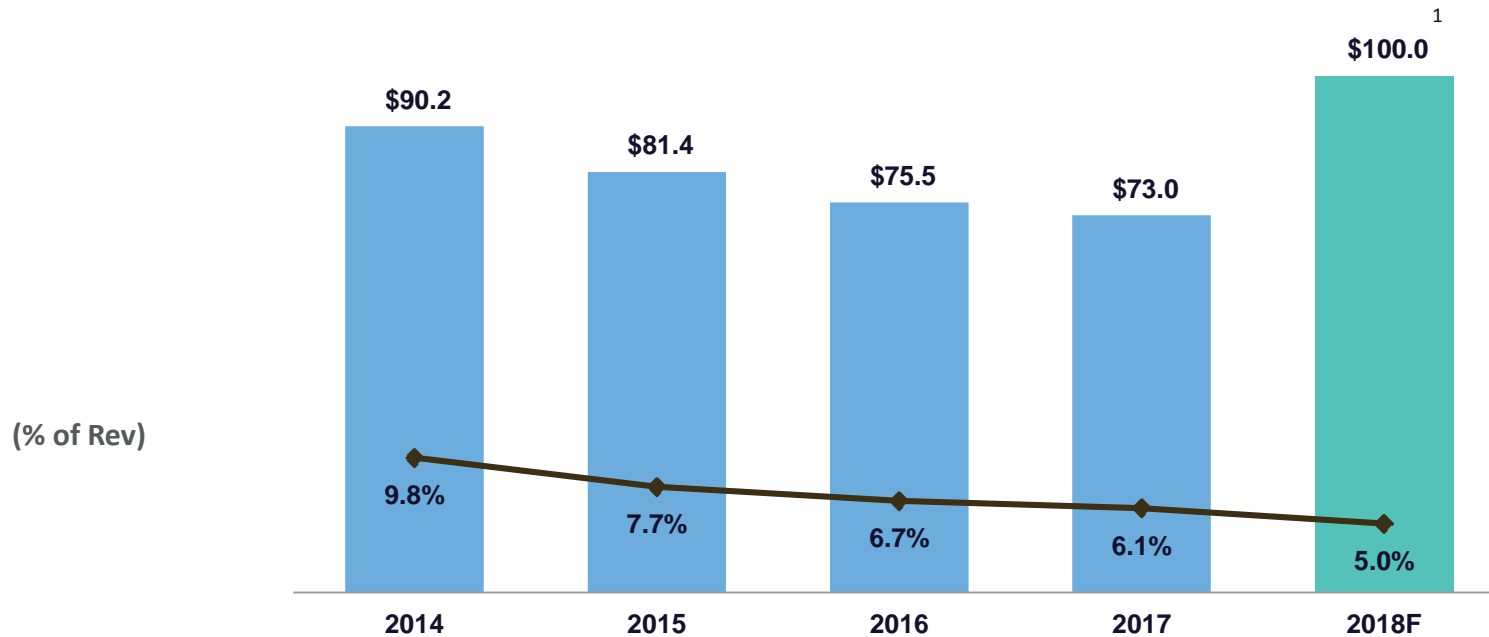
¹Normalized for restructuring charges of \$3.0 million, acquisition-related charges of \$8.0 million, and purchase accounting adjustments related to the write-down of deferred revenue of \$33.3 million and the write-up of inventory of \$10.9 million in the second quarter of 2018.

²Adjusted EBITDA is a Non-GAAP measure defined as earnings before interest, taxes, depreciation, amortization, stock-based compensation, restructuring, and acquisition-related costs.

Annual Capital Expenditures

(\$ in Millions)

CapEx \$M



Q2'18 capital expenditures were \$25.8 million.

Financial Outlook



Mike Pope, CFO

2018 Shutterfly Guidance^[1]

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

	<u>GAAP FY18</u>	<u>Non-GAAP Adj.</u>	<u>Non-GAAP FY18</u>
Net Revenue	\$1,972 to \$2,027	\$38 ^[2]	\$2,010 to \$2,065
Shutterfly Consumer Net Revenue	\$1,000 to \$1,025	—	\$1,000 to \$1,025
Lifetouch Net Revenue	\$752 to \$772	\$38 ^[2]	\$790 to \$810
SBS Net Revenue	\$220 to \$230	—	\$220 to \$230
Cost of Net Revenue	\$942 to \$966	(\$11) ^[3]	\$931 to \$956
Gross Profit	\$1,030 to \$1,060	\$49 ^{[2][3]}	\$1,079 to \$1,109
Gross Profit Margin	52.2% to 52.3%	—	53.7%
Operating Income	\$146 to \$166	\$49 ^{[2][3]}	\$196 to \$215
Stock-based Compensation	—	—	\$51
Amortization of Intangible Assets	—	—	\$39
Depreciation	—	—	\$114
Adjusted EBITDA ^[4]	—	—	\$400 to \$420
Effective Tax Rate ^[5]	21.0%	—	21.0%
Net Income per Share	\$1.94 to \$2.39	\$1.11	\$3.05 to \$3.50
Diluted Shares (weighted average shares in millions)	35.0	—	35.0
Capital Expenditures	\$100	—	\$100

¹Excludes restructuring and acquisition-related charges.

²This non-GAAP adjustment eliminates the effect of the purchase accounting deferred revenue write-down.

³This non-GAAP adjustment eliminates the effect of the purchase accounting inventory write-up.

⁴Adjusted EBITDA is a Non-GAAP measure defined as earnings before interest, taxes, depreciation, amortization, stock-based compensation, restructuring, and acquisition-related costs.

⁵Effective tax rate assumes windfall from stock-based compensation for shares expected to vest for the remainder of 2018, based on the Company's average stock price over the last three months.

Quarterly Targets (Non-GAAP)¹

(\$ and shares in millions, except per share amounts)	<u>Q1'18</u> <u>Actual</u>	<u>Q2'18</u> <u>Actual</u>	<u>Q3'18</u> <u>Target</u>	<u>Q4'18</u> <u>Target</u>	<u>Total FY18</u> <u>Target</u>
Net Revenue	\$200	\$477	\$379	\$982	\$2,038
Shutterfly Consumer Net Revenue	\$152	\$165	\$133	\$563	\$1,013
Lifetouch Net Revenue	—	\$262	\$190	\$348	\$800
SBS Net Revenue	\$48	\$50	\$56	\$72	\$225
Gross Profit	\$74	\$254	\$163	\$603	\$1,094
Gross Profit Margin	36.9%	53.4%	43.0%	61.4%	53.7%
Operating Income (Loss)	(\$30)	\$32	(\$92)	\$294	\$205
Stock-based Compensation	\$12	\$12	\$13	\$15	\$51
Amortization of Intangible Assets	\$2	\$13	\$12	\$13	\$39
Depreciation	\$23	\$28	\$31	\$33	\$114
Adjusted EBITDA ²	\$7	\$84	(\$36)	\$354	\$410
Effective Tax Rate	36.5%	15.9%	24.2%	24.3%	21.0%
Net Income (Loss) per Share	(\$0.73)	\$0.38	(\$2.44)	\$5.89	\$3.27
Diluted Shares (weighted average)	32.7	35.8	33.4	35.1	35.0

¹Sum of quarterly targets equal the mid-point of 2018 annual non-GAAP guidance. Excludes restructuring and acquisition-related charges.

²Adjusted EBITDA is a non-GAAP measure defined as earnings before interest, taxes, depreciation, amortization, stock-based compensation, restructuring, and acquisition-related costs.

Q&A

Reconciliation of Non-GAAP Adjusted EBITDA

(\$ in Millions)

	<u>Q2'18</u>	<u>Q2'17</u>
GAAP net loss	(\$26.5)	(\$22.8)
Interest expense, net	16.2	5.7
Tax benefit	(12.6)	(14.7)
Depreciation and amortization	40.4	25.9
Stock-based compensation expense	11.7	10.5
Capital lease termination	-	8.1
Restructuring charges	3.0	4.7
Acquisition-related costs	8.0	-
Purchase accounting adjustments	44.2	-
Non-GAAP Adjusted EBITDA	<u>\$84.4</u>	<u>\$17.4</u>

Shutterfly Consumer Net Revenue by Brand

(\$ in Millions)

	Three Months Ended						Year Ended
	Mar. 31, 2017	Jun. 30, 2017	Sep. 30, 2017	Dec. 31, 2017	Mar. 31, 2018	Jun. 30, 2018	Dec. 31, 2017
Shutterfly Consumer net revenue:							
Shutterfly Brand	\$ 123.9	\$ 139.9	\$ 115.9	\$ 464.5	\$ 142.7	\$154.2	\$ 844.2
Tiny Prints Boutique	-	-	1.9	48.9	2.1	1.4	50.8
Tiny Prints ⁽¹⁾	10.5	12.9	-	-	-	-	23.4
Wedding Paper Divas ⁽²⁾	14.2	11.4	8.5	-	-	-	34.2
My Publisher ⁽³⁾	5.0	6.1	-	-	-	-	11.1
Other	7.0	8.8	9.1	8.3	7.3	9.4	33.3
Total	<u>\$ 160.6</u>	<u>\$ 179.1</u>	<u>\$ 135.4</u>	<u>\$ 521.7</u>	<u>\$ 152.1</u>	<u>\$165.0</u>	<u>\$ 997.0</u>

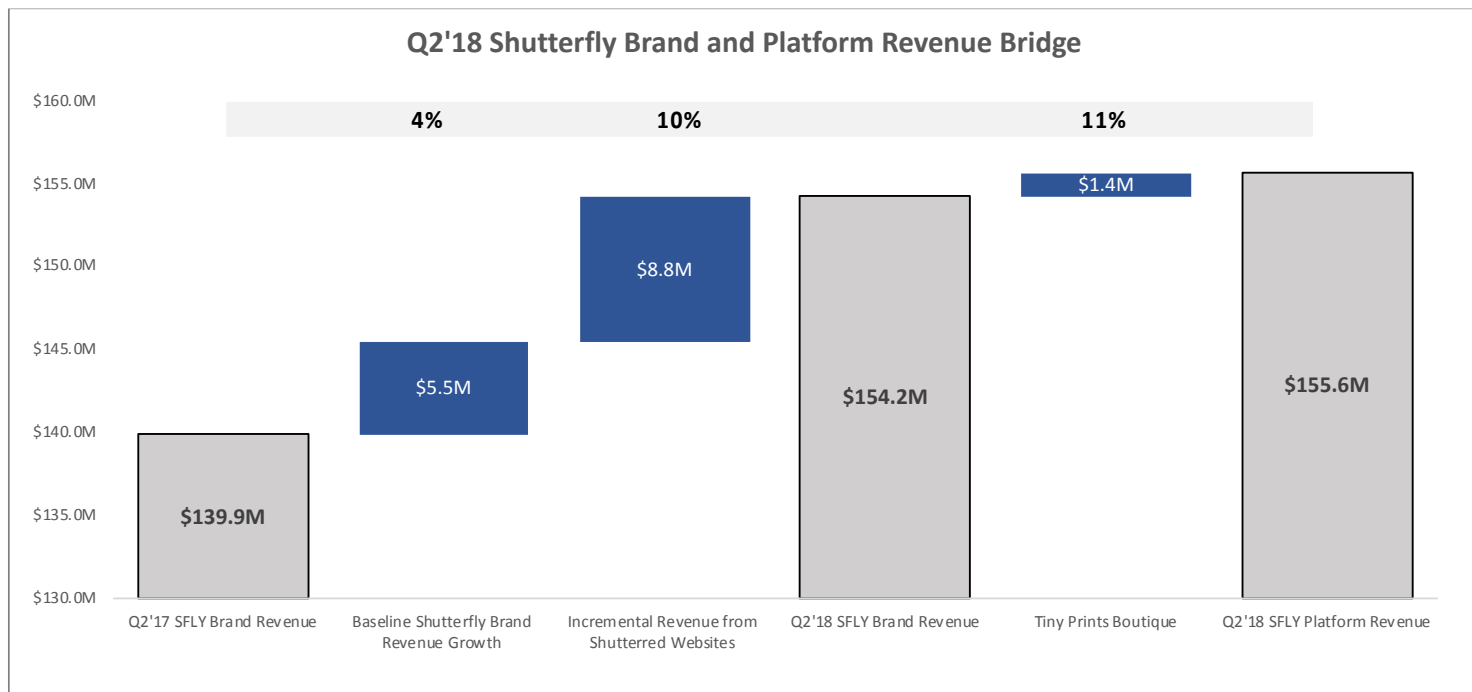
(1) Tiny Prints website shut down on June 28, 2017.

(2) Wedding Paper Divas website shut down on September 13, 2017.

(3) MyPublisher website shut down on May 15, 2017.

Q2'18 Shutterfly Revenue Bridge

Shutterfly Brand and Shutterfly Platform revenue growth rates include a benefit from the platform consolidation and the shuttering of legacy Tiny Prints, Wedding Paper Divas, and MyPublisher websites. The following bridges Q2'17 Shutterfly Brand revenue to Q2'18 Shutterfly Brand revenue and Q2'18 Shutterfly Platform revenue by estimating revenue attributable to i) baseline Shutterfly brand revenue growth (our best estimate of an organic Shutterfly brand growth rate), ii) incremental Shutterfly Brand revenue growth from the shuttering of legacy Tiny Prints, Wedding Paper Divas, and MyPublisher websites, and iii) the opening of the Tiny Prints Boutique.



- (1) The Revenue bridge uses customer cohort data to estimate Q2'18 Shutterfly brand revenue from the shuttering of legacy Tiny Prints, Wedding Paper Divas, and MyPublisher websites that benefits the Shutterfly brand growth rate ("Incremental Revenue from Shutterred Websites"). Baseline Shutterfly brand revenue growth (\$5.5 million or 4%) is then calculated as the difference between total Shutterfly brand growth (\$14.3 million), less Incremental Revenue from Shutterred Websites (\$8.8 million).
- (2) Incremental Revenue from Shutterred Websites is Q2'18 Shutterfly brand revenue from legacy Tiny Prints, Wedding Paper Divas, and MyPublisher registered users, less an estimate of what Shutterfly brand revenue from this cohort would have been if the legacy Tiny Prints, Wedding Paper Divas, and MyPublisher websites were still open.

Non-GAAP Guidance Update

(\$ in Millions, except per share amounts)

	Prior Non-GAAP Guidance Midpoint as of May 2, 2018		Updated Non-GAAP Guidance Midpoint
	Twelve Months Ending December 31, 2018⁽¹⁾	Change	Twelve Months Ending December 31, 2018⁽¹⁾
Net revenue	\$2,035	\$3	\$2,038
Shutterfly Consumer net revenue	\$1,035	(\$22)	\$1,013
Lifetouch net revenue	\$785	\$15	\$800
SBS net revenue	\$215	\$10	\$225
Gross profit margin ⁽²⁾	62.4%		53.7%
Operating income	\$196	\$9	\$205
Adjusted EBITDA	\$400	\$10	\$410
Earnings per share	\$3.06	\$0.21	\$3.27
Capital expenditures	\$100		\$100

(1) Excludes restructuring, acquisition-related charges and purchase accounting adjustments.

(2) In the second quarter, management substantially aligned Lifetouch accounting policies with Shutterfly, which resulted in a change to the presentation of photography expenses in the income statement. Photography expenses are re-classified to be presented as a cost of net revenue, as opposed to sales and marketing.

Segment Reporting Supplemental Information

In the second quarter of 2018, the Company expanded its segment disclosures to include margin. The following table provides a bridge for prior year financial statements to help investors understand the segment margin.

(\$ in Millions)

Three Months Ended June 30, 2017

	Shutterfly income statement	Stock-based compensation expense	Amortization of intangible assets	Corporate expenses and other	Non- recurring charges	Segment reporting for Shutterfly Consumer + SBS
Net revenue	\$ 209.0	\$ -	\$ -	\$ -	\$ -	\$ 209.0
Cost of net revenue	(118.2)	1.1	1.2	-	-	(115.9)
Technology and development	(39.4)	2.2	-	-	-	(37.2)
Sales and marketing	(43.0)	3.0	2.7	-	-	(37.3)
General and administrative	(27.5)	4.2	-	18.6	-	(4.7)
Capital lease termination	(8.1)	-	-	-	8.1	-
Restructuring	(4.7)	-	-	-	4.7	-
Operating (loss) income	<u>\$ (31.8)</u>	<u>\$ 10.5</u>	<u>\$ 3.9</u>	<u>\$ 18.6</u>	<u>\$ 12.8</u>	<u>\$ 13.9</u>

Six Months Ended June 30, 2017

	Shutterfly income statement	Stock-based compensation expense	Amortization of intangible assets	Corporate expenses and other	Non- recurring charges	Segment reporting for Shutterfly Consumer + SBS
Net revenue	\$ 401.0	\$ -	\$ -	\$ -	\$ -	\$ 401.0
Cost of net revenue	(234.3)	2.3	2.4	-	-	(229.6)
Technology and development	(85.4)	4.9	-	-	-	(80.5)
Sales and marketing	(85.9)	6.2	5.7	-	-	(74.0)
General and administrative	(55.3)	9.5	-	36.8	-	(8.9)
Capital lease termination	(8.1)	-	-	-	8.1	-
Restructuring	(13.6)	-	-	-	13.6	-
Operating (loss) income	<u>\$ (81.6)</u>	<u>\$ 22.8</u>	<u>\$ 8.2</u>	<u>\$ 36.8</u>	<u>\$ 21.7</u>	<u>\$ 8.0</u>