SHUTTERFLY INC

Q2 2015 Earnings Conference Call

July 29, 2015

Jeff Housenbold, CEO

Brian Regan, 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 2015 and beyond and our business outlook for the third quarter and full year 2015 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. 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 Flow 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.

Conference Call Agenda

- Insights on Q2 performance
- Progress on strategic imperatives

- Q2 financial performance
- Q3 / FY2015 outlook

Q2'15 Financial Results

($ in millions except per share amounts)

	Q2 FY15	Q2 FY14	Change (Y/Y)
Net Revenue	$183.9	$159.1	16%
Adjusted EBITDA *	$15.6	$11.7	33%
Net Loss per Share (GAAP)	$(0.63)	$(0.70)	(10)%
Free Cash Flow	$(7.0)	$(16.3)	(57)%

- Results include $7.5M deferred revenue recognition from unredeemed flash deal sales
- Double digit organic revenue growth for Shutterfly brand, strong Enterprise growth
- Softness at Tiny Prints and Wedding Paper Divas as we focus investment on Shutterfly 3.0
- Record adjusted EBITDA includes operating efficiencies and favorable product mix
- Margins in early stages of improvement, should begin to accelerate heading into Q4

- Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization and stock-based compensation.
- A non-GAAP to GAAP reconciliation is provided at the end of this presentation.

Consumer Metrics

	Q2 FY15	Q2 FY14	Change (Y/Y)
Customers	3,134,346	2,640,739	19%
Orders	5,038,421	4,154,806	21%
Average Order Value (AOV)*	$32.50	$36.14	(10)%
AOV excluding GrooveBook and Treat**	$36.51	$37.04	(1)%

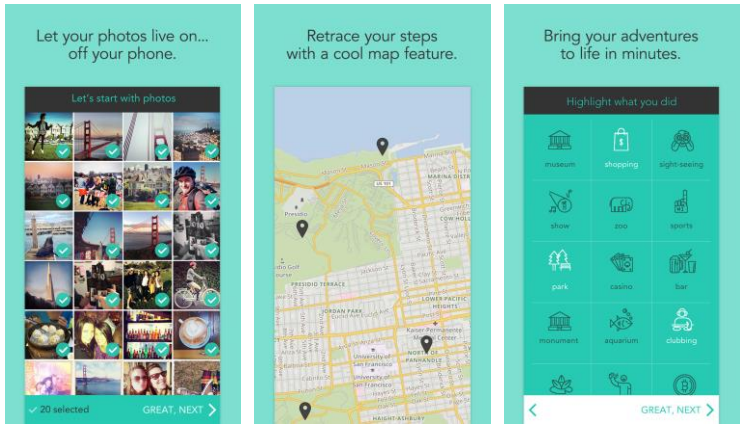
- Shutterfly brand: good growth in customers, orders; modest increase in AOV
- More profitable mix led by photo books and C&S tied to celebration occasions
- Excluding Groovebook and Treat, customers and orders grew mid-to-high single digits and AOV was down approximately 1%

* Average order value excludes Enterprise revenue and flash deal revenue breakage

** GrooveBook transaction was completed on October 31, 2014 and Treat closure occurred in the first quarter of 2015

Executing on Innovations and Investments

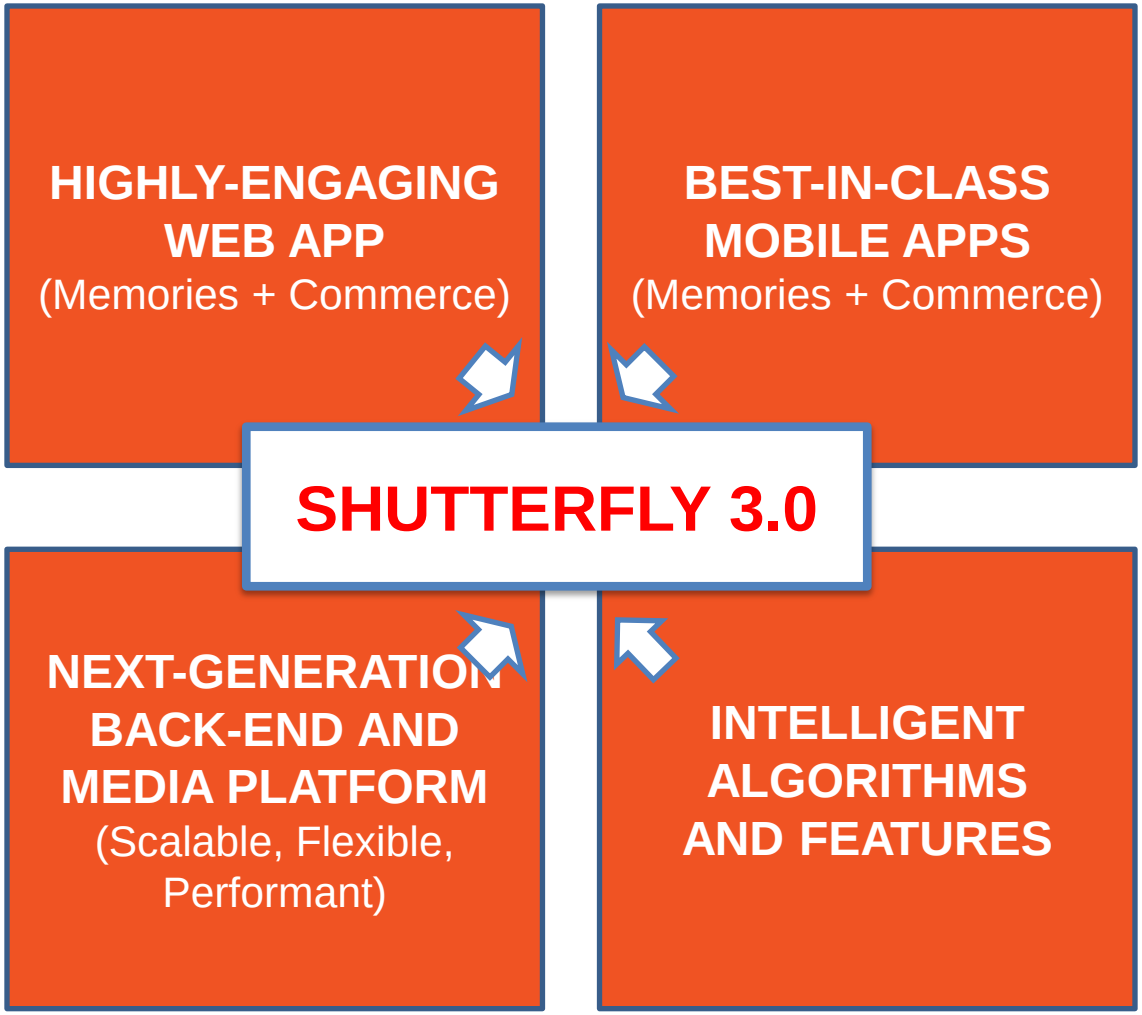
- Launched TripPix – iOS travel photobook app targeted to millennials
- Introduced Shutterfly brand product innovations: new wedding invite suites, expanded collection of personalized products including jewelry and new home décor items
- Invested in building out enterprise platform
- Developing new media storage platform
- Migrated to more sophisticated data warehouse



TripPix: Simple to create travel-themed photo books

New Shutterfly Wedding Invites & Personalized Products

Shutterfly 3.0 Vision



Getting Back to Business

- Solid Q2:
  - Steady core Shutterfly brand performance; strong Enterprise growth
  - Record adjusted EBITDA
- Our investments are beginning to pay off:
  - Improving margins
  - New multi-year Fortune 50 signing for Shutterfly Business Solutions
- 2H 2015 priorities:
  - Executing on Q4
  - Beginning to deliver Shutterfly 3.0 mid 2016

Focused on executing on our business imperatives in 2H FY2015

Q2 FY15 Financial Results Review

Brian Regan, CFO

Q2 Financial Results Summary

($ in millions except per share amounts)

	Q2 FY15	Q2 FY14	Change (Y/Y)
Net Revenue	$183.9	$159.1	$24.8
Adjusted EBITDA *	$15.6	$11.7	$3.9
Net Loss per Share (GAAP)	$(0.63)	$(0.70)	$0.07
Net Loss per Share (Non-GAAP)**	$(0.56)	$(0.63)	$0.07

Q2 2015 Revenue includes $7.5M of released Deferred Revenue from unredeemed flash sales

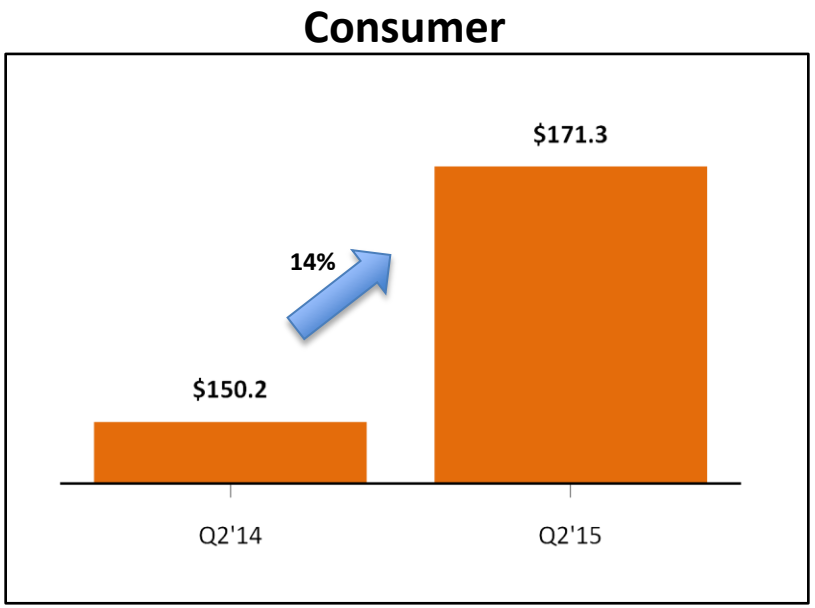
- Net Revenue up 11% excluding this item
- ~$4M EBITDA benefit

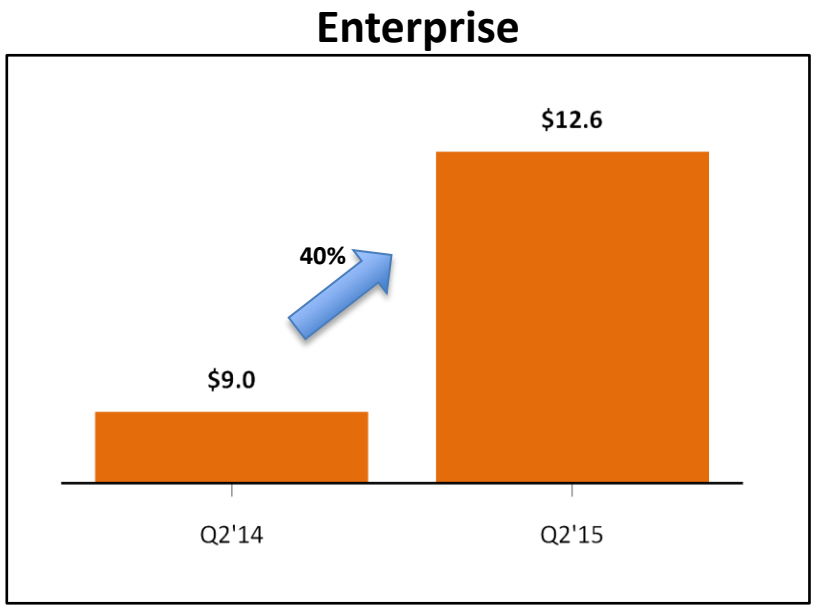
* Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization and stock-based compensation.

** Non-GAAP Net Loss normalizes for the impact our Convertible Note offering has on Net Loss and earnings per share. A non-GAAP to GAAP reconciliation is provided at the end of this presentation.

Consumer and Enterprise Revenues

($ in millions)





- Q2 Enterprise Revenues represented 7% of Total Q2 Revenues

Q2 Consumer Metrics

	Q2 FY15	Q2 FY14	Change (Y/Y)
Customers	3,134,346	2,640,739	19%
Orders	5,038,421	4,154,806	21%
Average Order Value (AOV) *	$32.50	$36.14	(10)%
AOV excluding GrooveBook and Treat*	$36.51	$37.04	(1)%

- Customer and order growth led by core Shutterfly brand, offset by softness at smaller brands
- Excluding GrooveBook and Treat, customers were up 5% and orders were up 9%

* Average order value excludes Enterprise revenue and flash deal revenue breakage

** GrooveBook transaction was completed on October 31, 2014 and Treat closure occurred in the first quarter of 2015

GAAP – Gross Profit/Margin

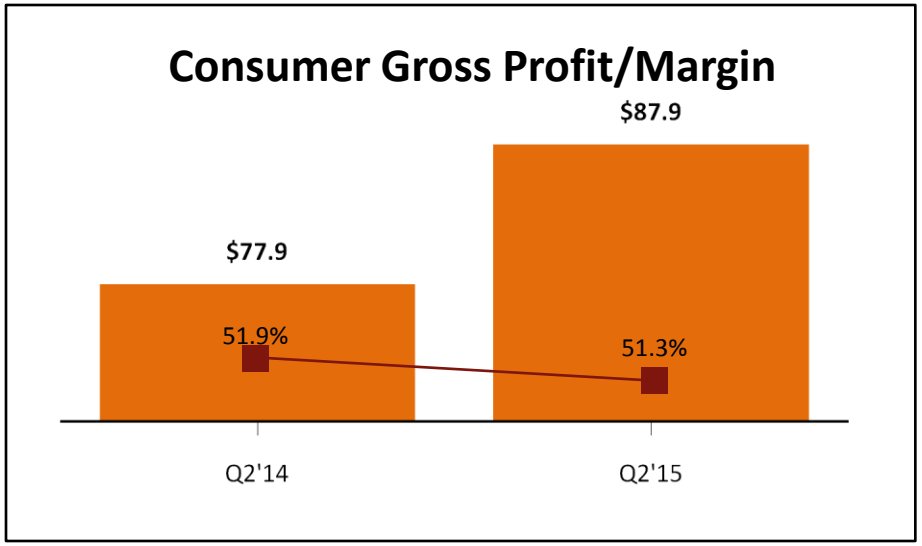
($ in millions)	Q2 FY15	Q2 FY14	Q2 FY15	Q2 FY14
Net Revenue	$183.9	$159.1	*of Total Net Revenues*	
Gross Profit / Margins	$87.2	$75.8	47%	48%
Gross Profit / Margins (Non-GAAP)*	$90.2	$79.5	49%	50%

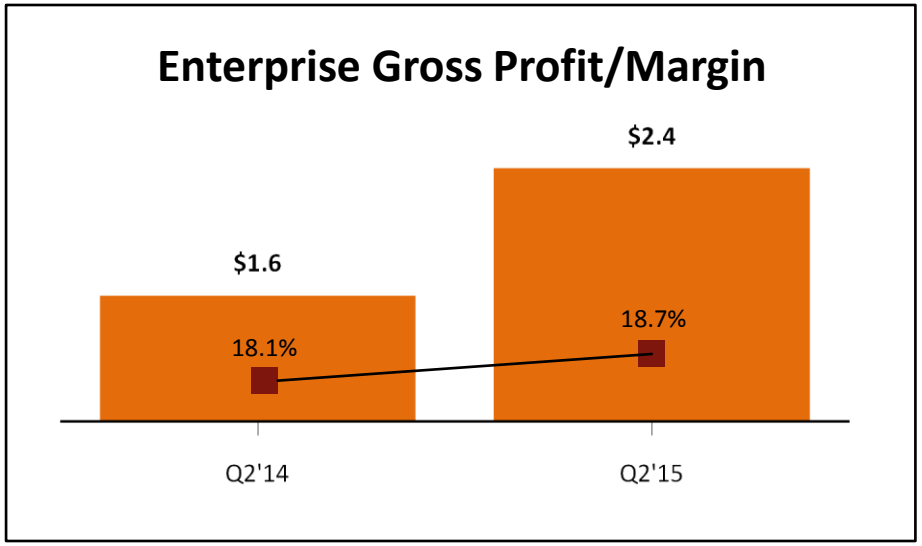
- Q2 FY15 GAAP gross margin includes ~220bps related to release of deferred revenue
- Excluding deferred revenue release, gross margin > 45%, 80bps above guidance range
- Expect more normalized year-over-year comparisons to begin in Q4 after manufacturing facility initiatives (new/consolidated/closed) are lapped and completed

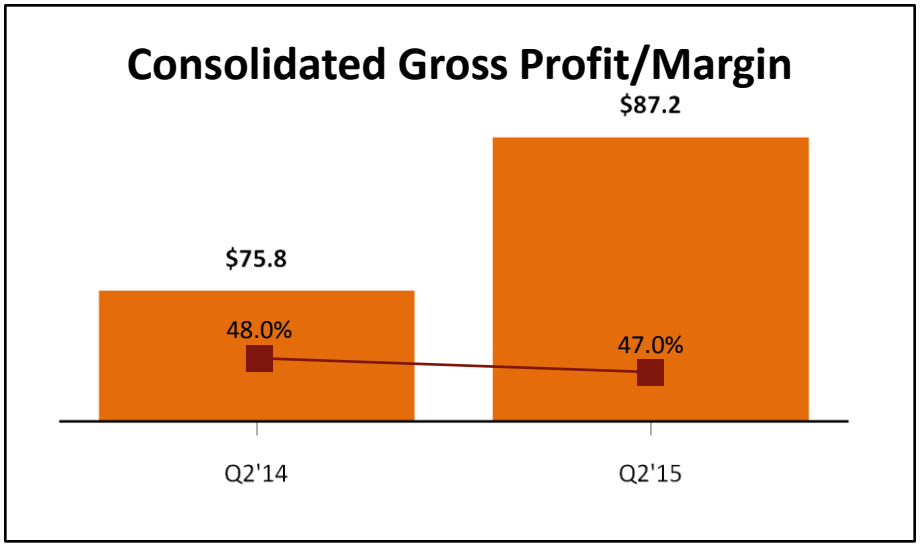
* Non-GAAP Gross Profit/Margins excludes stock-based compensation and amortization of intangible assets. A non-GAAP to GAAP reconciliation is provided at the end of this presentation.

Gross Profit/Margin by Segment

($ in millions)







GAAP – Total Operating Expenses

($ in millions)	Q2 FY15	Q2 FY14	Q2 FY15	Q2 FY14
Net Revenue	$183.9	$159.1	*of Total Net Revenues*	
Gross Profit / Margins	$87.2	$75.8	47%	48%
Operating Expenses	$115.6	$102.5	63%	64%
Operating Expenses (excl. SBC)	$100.3	$88.7	55%	56%

- Cash OPEX excluding SBC up 13% y/y, slower than revenue growth; includes flash deal deferred marketing costs
- Excluding flash deal breakage, restructuring and proxy costs, cash OPEX grew < 5% y/y

GAAP – Technology and Development Expense

($ in millions)	Q2 FY15	Q2 FY14	Q2 FY15	Q2 FY14
Net Revenue	$183.9	$159.1	*of Total Net Revenues*	
Gross Profit / Margins	$87.2	$75.8	47%	48%
Operating Expenses	$115.6	$102.5	63%	64%
Technology & Dev.	$36.5	$32.1	20%	20%
T&D (excl. SBC, D&A)	$25.2	$22.7	14%	14%

Higher Technology and Development Expense driven by:

- Non-recurring restructuring activities
- Higher depreciation expenses related to data center relocation
- Continued investments in headcount to support core products, mobile, Shutterfly 3.0

GAAP – Sales and Marketing Expense

($ in millions)	Q2 FY15	Q2 FY14	Q2 FY15	Q2 FY14
Net Revenue	$183.9	$159.1	*of Total Net Revenues*	
Gross Profit / Margins	$87.2	$75.8	47%	48%
Operating Expenses	$115.6	$102.5	63%	64%
Technology & Dev.	$36.5	$32.1	20%	20%
Sales & Marketing	$50.4	$44.5	27%	28%
S&M (excl. SBC, D&A)	$40.1	$34.1	22%	21%

- Excluding impact of approx. $3.5M in deferred marketing expense related to flash deal breakage, sales and marketing expense increased 6% y/y
- The growth in sales and marketing expense was also largely driven by higher media costs and continued co-marketing partnerships

GAAP - General and Administrative Expense

($ in millions)	Q2 FY15	Q2 FY14	Q2 FY15	Q2 FY14
Net Revenue	$183.9	$159.1	*of Total Net Revenues*	
Gross Profit / Margins	$87.2	$75.8	47%	48%
Operating Expenses	$115.6	$102.5	63%	64%
Technology & Dev.	$36.5	$32.1	20%	20%
Sales & Marketing	$50.4	$44.5	27%	28%
General & Admin.	$28.7	$25.9	16%	16%
G&A (excl. SBC and CC fees)	$17.9	$16.4	10%	10%

- Excluding stock-based comp and credit card processing fees, G&A expenses represented 10% of quarterly net revenues and grew 9% over Q2 2014
- When also excluding $1.5 million in Q2 proxy costs, G&A was flat with Q2 of last year
  - Year-to-date proxy costs were approximately $2 million
  - Year-to-date non-recurring restructuring and proxy costs were more than $6 million

Non-GAAP Adjusted EBITDA

($ in millions)	Q2 FY15	Q2 FY14	Q2 FY15	Q2 FY14
Net Revenue	$183.9	$159.1	*of Total Net Revenues*	
Gross Profit / Margins	$87.2	$75.8	47%	48%
Operating Expenses	$115.6	$102.5	63%	64%
Technology & Dev.	$36.5	$32.1	20%	20%
Sales & Marketing	$50.4	$44.5	27%	28%
General & Admin.	$28.7	$25.9	16%	16%
Operating Loss	$(28.4)	$(26.7)	(16)%	(17)%
Adjusted EBITDA *	$15.6	$11.7	9%	7%

- Excluding the flash breakage benefit, Adjusted EBITDA of $11.6 million exceeded our guidance for the quarter, even when including non-recurring restructuring and proxy costs
- Excluding the flash breakage benefit and non-recurring restructuring and proxy costs, Adjusted EBITDA would have been > $15.6 million in Q2

- Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization and stock-based compensation.
- A non-GAAP to GAAP reconciliation is provided on the last slide of this presentation.

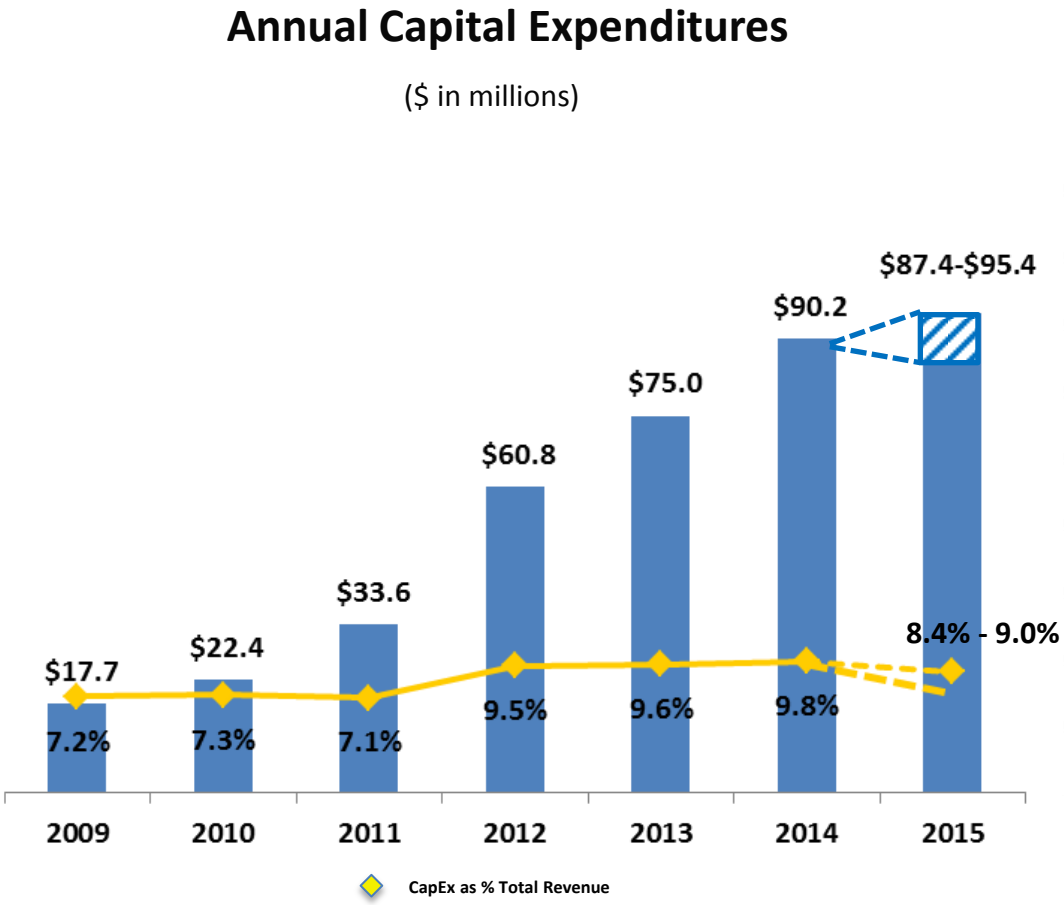
GAAP and Non-GAAP Net Loss

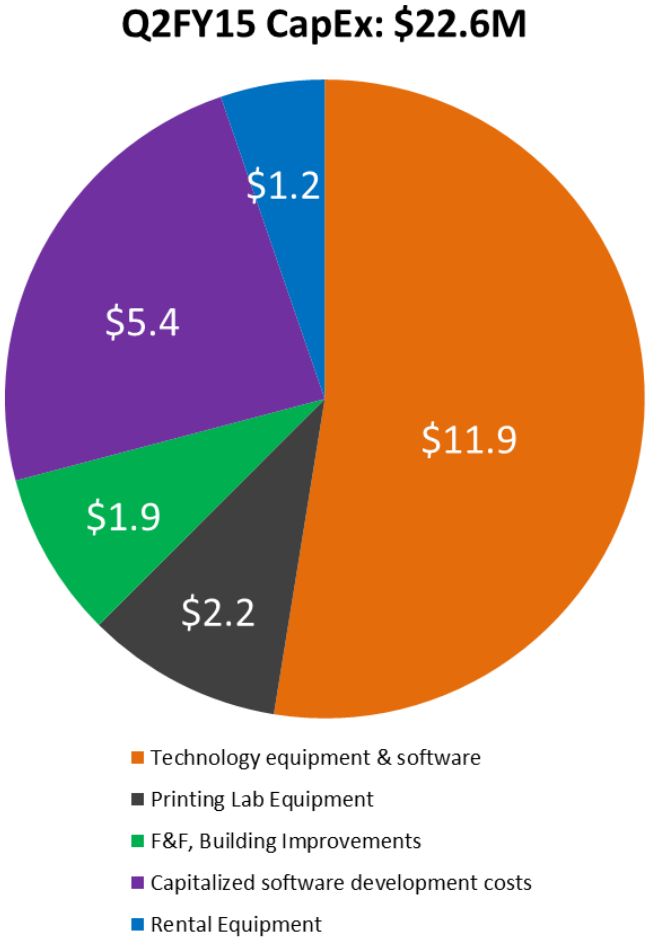
($ in millions except per share amounts)	Q2 FY15	Q2 FY14	Q2 FY15	Q2 FY14
Net Revenue	$183.9	$159.1	*of Total Net Revenues*	
Gross Profit / Margins	$87.2	$75.8	47%	48%
Operating Expenses	$115.6	$102.5	63%	64%
Operating Loss	$(28.4)	$(26.7)	(15)%	(17)%
Adjusted EBITDA*	$15.6	$11.7	9%	7%
Tax Rate	(28.5%)	(11.3%)	—	—
Net Loss (GAAP)	$(23.8)	$(27.1)	(13%)	(17%)
Net Loss (Non-GAAP)**	$(20.9)	$(24.1)	(11%)	(15%)
Net Loss per Share (GAAP)	$(0.63)	$(0.70)	—	—
Net Loss per Share (Non-GAAP)**	$(0.56)	$(0.63)	—	—

* Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization and stock-based compensation.

** Non-GAAP Net Loss normalizes for the impact our Convertible Note offering has on Net Loss and earnings per share. A non-GAAP to GAAP reconciliation is provided at the end of this presentation.

Capital Expenditures





Q3 FY15 Guidance (as of July 29, 2015)

($ and shares in millions, except per share components)	**Q3 FY15** (GAAP)	**Q3 FY15** (Non-GAAP)
Net Revenues	$164.5 to $167.5	—
Year-over-year Growth	*15.8% to 18.0%*	—
Gross Profit Margins	34.5% to 35.5%	36.2% to 37.1%
Operating Loss	($57.3) to ($53.5)	($34.2) to ($31.6)
Adjusted EBITDA *	—	($11.2) to ($9.6)
Effective Tax Rate	14.0% to 18.0%	—
Net Loss per Share	($1.47) to ($1.32)	($1.39) to ($1.24)
Weighted Average Shares	36.5	—

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2015 Guidance (as of July 29, 2015)

($ and shares in millions, except per share components)	**FY15** (GAAP)	**FY15** (Non-GAAP)
Net Revenues	$1,040.0 to $1,060.0	—
Year-over-year Growth	*12.8% to 15.0%*	—
Gross Profit Margins	50.5% to 51.0%	51.7% to 52.1%
Operating Income / (Loss)	$4.4 to $14.7	$98.4 to $107.4
Adjusted EBITDA *	—	$185.9 to $193.9
Effective Tax Rate	15.0% to 25.0%	—
Net Income / (Loss) per Share **	($0.32) to ($0.13)	($0.03) to $0.20
Weighted Average Shares	37.0	—
Capital Expenditures	8.4% to 9.0%	—

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** Non-GAAP Net Income/Loss normalizes for the impact our Convertible Note offering has on Net Income/Loss and earnings per share. A non-GAAP to GAAP reconciliation is provided at the end of this presentation.

SHUTTERFLY INC

Q&A

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Reconciliation of Non-GAAP Gross Margin

($ in millions)	Q2 FY15	Q2 FY14
Reconciliation of Non-GAAP Gross Margin		
GAAP gross profit	$87.2	$75.8
Stock-based compensation	1.0	0.9
Amortization of intangible assets	2.0	2.8
Non-GAAP gross profit	$90.2	$79.5

Reconciliation of Non-GAAP Adjusted EBITDA

($ in millions)	Q2 FY15	Q2 FY14
Reconciliation of Non-GAAP Adjusted EBITDA		
GAAP net loss	$(23.8)	$(27.1)
Interest expense / (income), net	4.9	3.8
Tax benefit	(9.5)	(3.4)
Depreciation and amortization	27.7	23.7
Stock-based compensation expense	16.3	14.7
Non-GAAP Adjusted EBITDA	$15.6	$11.7

Reconciliation of Cash Flows from Operations To Non-GAAP Adjusted EBITDA		
Net cash used in operations	$22.2	$12.3
Interest expense / (income), net	4.9	3.8
Tax benefit	(9.5)	(3.4)
Changes in operating assets/liabilities	(6.8)	(7.6)
Other adjustments	4.8	6.6
Non-GAAP Adjusted EBITDA	$15.6	$11.7

Reconciliation of Non-GAAP Net Loss Per Share

($ in millions, except per share amounts)

Share amounts in thousands

	Q2 FY15	Q2 FY14
Reconciliation of Non-GAAP Net Loss Per Share		
GAAP net loss	$(23.8)	$(27.1)
Add back interest expense related to:		
Amortization of debt discount	3.1	2.9
Amortization of debt issuance costs	0.3	0.3
0.25% coupon	0.2	0.2
Tax effect	(0.7)	(0.4)
Non-GAAP net loss	$(20.9)	$(24.1)
GAAP Shares outstanding	37,537	38,438
Add: Dilutive effect of convertible notes	0	0
Non-GAAP Shares outstanding	37,537	38,438
GAAP net loss per share	$(0.63)	$(0.70)
Non-GAAP net loss per share	$(0.56)	$(0.63)