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Eventbrite, Inc. (EB)

Q3 2019 Earnings Call

CORPORATE PARTICIPANTS

Kristin Johnston
Senior Corporate Counsel, Eventbrite, Inc.

Charles C. Baker
Chief Financial Officer, Eventbrite, Inc.

Julia Hartz
Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

OTHER PARTICIPANTS

Ryan Sundby
Analyst, William Blair & Co. LLC

Nathan Mitchell
Analyst, SunTrust Robinson Humphrey, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Daphne, and I will be your conference operator today. At this time, I would like to welcome everyone to the Eventbrite, Inc. Third Quarter 2019 Earnings Conference Call. [Operator Instructions] Thank you.

I would now like to turn the call over to Kristin Johnston, Senior Corporate Counsel. You may begin your conference.

Kristin Johnston
Senior Corporate Counsel, Eventbrite, Inc.

Thank you, operator. Good afternoon and welcome to the third quarter 2019 Eventbrite earnings call. Prior to this call, we released our Shareholder Letter announcing our financial results. It can be found on our website at investor.eventbrite.com.

Before we begin, I would like to remind you that during today's call, we will be making forward-looking statements regarding future events and financial performance, including providing our net revenue and non-GAAP adjusted EBITDA outlook for the fourth quarter and full year of 2019. We caution that such statements reflect our best judgment as of today, November 7, based on factors that are currently known to us and that actual future events or results could differ materially due to several factors, many of which are beyond our control.

For a more detailed discussion of the risks and uncertainties affecting our future results, we refer you to the section titled Forward-Looking Statements in our Shareholder Letter and our filings with the SEC. We undertake no obligation to update any forward-looking statements made during the call to reflect events or circumstances after today or to reflect new information or the occurrence of unanticipated events, except as required by law.

During this call, we will present adjusted EBITDA and free cash flow, both of which are non-GAAP financial measures. These non-GAAP financial measures are not prepared in accordance with GAAP and have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results of operations as reported under GAAP. Reconciliations to the most directly comparable GAAP financial measures are available in our Shareholder Letter. We encourage you to read our Shareholder Letter as it contains important information about GAAP and non-GAAP results.

I will now turn the call over to Julia Hartz, Co-Founder and Chief Executive Officer. Julia?

Julia Hartz

Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

Thank you, Kristin, and welcome to our third quarter 2019 earnings conference call. I'm pleased to be joined on this call today by Lanny Baker, our recently appointed CFO. I look forward to working closely with Lanny and the rest of the executive team as we position Eventbrite to take advantage of the large growth opportunity before us.

In September, we completed our first year as a public company. While we've had some learning experiences, we also have made great strides in evolving our platform to serve our expanding creator base. Since our IPO, we welcomed over 300,000 first time Eventbrite creators and powered over 5 million events for more than 1 million total creators. Over the last 12 months, we've added key functionality to our platform, grown our global roster of creators, and increased our consumer engagement.

The third quarter was marked by several highlights. We continued to make progress against our key strategic growth initiatives of increasing transactional volume and advancing our products and platform. We generated better than expected financial results, which were driven by another quarter of 20%-plus growth in our Self Sign-On channel. And we are executing a realignment plan to operate more efficiently and better support long-term sustainable growth.

Our commitment to building a platform that enables event creators to run their businesses efficiently is at the core of our company culture and strategy. In our Shareholder Letter, we featured the NASA Jet Propulsion Lab, which uses Eventbrite to support their flagship event where they invite the public to experience their latest developed technology and learn about NASA's space program.

This year, within 20 minutes of releasing their tickets to the public, Explore JPL issued over 36,000 tickets. Beyond relying on Eventbrite to handle this heavy ticket demand, they also leveraged our onsite check-in tools, which gave their employees easy access to scanning tickets from mobile devices at the event, thus making the attendee experience much easier.

Turning to our financial results, we're pleased with the continued strong performance of our Self Sign-On channel, which had 23% growth in paid ticket volume. Total company revenue of \$82 million for the quarter grew 11% and was better than we expected for the period. We continued to experience strong growth in our international markets, led by the UK, Canada, Australia and Brazil. Events outside the US accounted for 37% of total paid tickets and 28% of net revenue in the quarter versus 35% and 24%, respectively, in the prior year. Our adjusted EBITDA loss was in line with our expectation for the quarter, and included \$3.8 million in expenses related to resource realignment.

Additionally, we've made headway in strengthening our platform for high-value creators to operate venues, promote shows and host frequent events. Our platform's enhanced reserved seating functionality offers a robust and important solution for many of our Music clients. We also launched a new ticket pricing tool that leverages

machine learning and real-time data-driven insights which enable creators to price their tickets more intelligently and maximize their ticket sales.

We've nearly wrapped up the migration of Ticketfly customers to Eventbrite Music as planned. We continue to be focused on earning the loyalty and trust of these new customers. Our strong cash generation in the quarter enabled us to repay the debt associated with the Ticketfly acquisition, reducing further interest expense and putting us in a debt-free position.

In summary, we made good progress on executing our plan during the first nine months of the year. We remain optimistic about our growth prospects, and believe we have a terrific opportunity to build on our leadership position in the ticketing and events mid-market. We appreciate the dedication and hard work of our employees around the globe, and the support of our shareholders during our first year as a public company.

With that, I'll now turn the call over to Lanny.

Charles C. Baker

Chief Financial Officer, Eventbrite, Inc.

Thanks, Julia. It's a privilege to participate in today's call, and I'm excited to be part of this team. I believe Eventbrite has established itself as a global leader in the live events market and I see tremendous potential to expand the company's presence and its value in the years ahead. The strength and simplicity of our business enablement platform brings in thousands of new event creators each month. And our large and healthy Self Sign-On business speaks to both the demand for what we do as well as the appeal of Eventbrite's ever-evolving solution.

We covered the third quarter financial results in detail in our Shareholder Letter, so I'll just provide some quick housekeeping items and then turn to discuss the outlook for the fourth quarter and full year.

As Julia noted, revenue grew 11% year-to-year in the third quarter to \$82 million. It was led by the Self Sign-On channel. Gross profit grew 16% year-to-year to \$49 million, and gross margins rose by 2 points year-to-year. Operating expenses, as reported, grew 30% year-to-year to \$72 million in the quarter. However, there were a number of unusual items in the quarter and in the comparison to last year. Adjusting for these items that I'll describe in a moment, ongoing operating expenses were down roughly 1% year-to-year and equaled 78% of revenue in the third quarter of 2019 versus an adjusted 88% of revenue in the third quarter a year ago.

The referenced adjustments include, first, we paid out \$4 million in consumer refunds in July 2019 related to the Roxodus Music Festival that was canceled by its creator. This expense was recorded within sales and marketing. We are pursuing an aggressive legal strategy to recoup our costs and have recently received a preliminary injunction in our favor.

Second, we incurred \$3.8 million in expenses directly related to our realignment initiatives during the third quarter of 2019. This was recorded within general and administrative. These costs and another \$2 million to \$3 million that we expect to incur in the fourth quarter, include consulting, severance and reorganization costs related to centralizing operations in Europe, shifting more of our resources into our best cost locations, and reducing spending in administrative functions. We plan to reinvest most of the efficiencies associated with these changes to propel long-term growth.

Finally, in the year ago quarter, we recorded \$9.3 million in non-recurring expense benefits related to the reversal of sales tax accruals and insurance recoveries. These items were recorded on the G&A line in the third quarter of

2018. We share these details in order to help investors better understand not only our reported results, but also the underlying trends in expenses and profitability within our business.

Turning to our business outlook for the fourth quarter and full year, the business outlook provided today anticipates fourth quarter revenue of \$75 million to \$79 million, and full year 2019 revenue of \$319 million to \$323 million. The outlook for the fourth quarter and full year revenue includes measured expectations for the growth of Music sales in the near-term. Although we have substantially completed the migration of all Ticketfly customers and we saw an improvement in Music revenue growth in the third quarter of 2019, we're cautious about the outlook for certain newly migrated creators. Our product, marketing, sales and service organizations are all aligned on the priority of earning these creators' loyalty.

Turning to adjusted EBITDA, the business outlook anticipates negative \$4 million to break even in adjusted EBITDA for the fourth quarter, and negative \$5 million to negative \$1 million for the full year of 2019. We anticipate \$2 million to \$3 million in expenses in the fourth quarter related to severance and realignment, and these expenses are included in the adjusted EBITDA outlook.

Summing up, we had a strong third quarter and we are well-positioned going into 2020. Our SSO channel continues to grow strongly based on the organic appeal of our platform. We've passed a major milestone in the Music migration, and are focusing on projecting our strength in the mid-market in the US and beyond. Our balance sheet remains strong with \$186 million in available liquidity and no debt. We are enthusiastic about the opportunity ahead, and we're now ready to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Ryan Sundby from William Blair.

Ryan Sundby

Analyst, William Blair & Co. LLC

Q

I guess, just to start, last quarter it sounded like, in Q2, churn was less than expected, but that was likely to show up in Q3. Just wondering if you could talk about how that played out. And then as we look forward into Q4, how should we think about churn? I think the idea was with that would be the biggest impact in Q4. And then, how does that play out into 2020? Thanks.

Charles C. Baker

Chief Financial Officer, Eventbrite, Inc.

A

Sure, Ryan. I assume you're talking about customer retention in the Music category, which is kind of been the primary area of focus. And assuming that that's you're asking about, our attention during the third quarter and throughout this year as we migrated has been roughly in line with our expectations. As we described, as we look into the fourth quarter, we have a cautious outlook about retention in the very near-term. There's a large number of Ticketfly customers that have been migrated over to the Eventbrite platform just in the last couple of months, and we're hard at work in earning those creators' loyalty as they establish themselves on this new platform. It's a big change for many of these creators to switch from one platform to another. We've done very well with prior transitions and migrations, but we're calling that out as something to be cautious about in the fourth quarter.

Ryan Sundby

Analyst, William Blair & Co. LLC

Q

But then, as you kind of get through the fourth quarter, do you see potential more losses coming in 2020 or does that kind of end the Ticketfly track at that point?

Julia Hartz

Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

A

Ryan, I can jump in here. When we look forward, we're focusing on the total music landscape in the mid-market, and that includes the global opportunity that we have. So, not only are we deeply committed to helping these customers that have transitioned on to the platform really find their footing and reap the benefit of the Eventbrite platform scale and functionality, we're also looking toward how we can use the work that we've done to create this migration success and expand our market into other growth markets where we already exist and we're already in front of Music customers.

Ryan Sundby

Analyst, William Blair & Co. LLC

Q

Okay. I guess just the follow-up here, Julia, in terms of the – I mean, clearly you've added a lot of functionality here this year. Any feedback from customers that maybe you left earlier in the transition process that maybe would be tempted to come back now that you have some of this functionality? And then second, as you add all this functionality, especially on the high-event creation side, are you starting to see the Eventbrite platform show up in other end categories that maybe you didn't expect? Just love to hear color there.

Julia Hartz

Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

A

Great. So, we've created a feedback loop with these customers that has been incredibly informative for us as we've added capability and strengthened our features that meet the needs of these frequent event creators. So I think your comparison of these Music customers to highly frequent creators is quite astute and correct. When we look at what we're developing for Ticketfly customers or folks who came from Ticketfly and the work we've been doing in the Music category, it absolutely transfers to other categories and to international markets. We absolutely believe that we'll be winning back customers over time, but that will take time. And we are focused right now on engendering the trust and loyalty that is so important with these venue customers and helping them grow their businesses so that they see the benefit of the Eventbrite platform. And from there, we'll take steps to continue to expand.

Ryan Sundby

Analyst, William Blair & Co. LLC

Q

Okay. Great. I'll jump back in the queue. Thanks.

Operator: [Operator Instructions] Your next question comes from the line of Youssef Squali with SunTrust.

Nathan Mitchell

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hi. This is Nate Mitchell on for Youssef. Thank you for taking my questions. Just maybe turning back to the migration, are you able to quantify for us the approximate annual revenues Ticketfly's larger customers, the ones that you reference at the end of the letter? And is there anything specific that's driving the related caution in your outlook since it doesn't seem like you've seen much churn to date?

Charles C. Baker

Chief Financial Officer, Eventbrite, Inc.

A

No, there's nothing specific. I think that it is prudent having, as I described, we've brought these customers through a transition in a really important operating system for their business. And we're trying to express our caution about the retention of those customers in the very near term. In terms of quantifying the percentage, the vast majority of the migration of Ticketfly customers happened well before the third quarter of 2019. So it's a relatively small number of customers that we're talking about that were migrated in the last part of this year.

Nathan Mitchell

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Small number of customers, but revenue wise, they weigh more though now?

Charles C. Baker

Chief Financial Officer, Eventbrite, Inc.

A

Yeah. Yeah, that's accurate. There were larger customers who migrated later.

Nathan Mitchell

Analyst, SunTrust Robinson Humphrey, Inc.

Q

But you're not quantifying kind of what the annual run rate of those customers are.

Charles C. Baker

Chief Financial Officer, Eventbrite, Inc.

A

That's correct.

Nathan Mitchell

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And then maybe turning to Self Sign-On, continues to be really strong. Maybe can you help us understand specifically what's going on with international and Self Sign-On of 30% paid ticket? And can you give us a sense of how big international is as a percentage of Self Sign-On even if it's directional as to the whole? Or any color there would be really helpful.

Julia Hartz

Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

A

Sure. So, Self Sign-On is our core business. And this is the Eventbrite platform's mission is to really drive enablement through this Self Sign-On channel. We saw, as you mentioned, strong growth in international paid tickets through Self Sign-On of 30%. And really that is a nod toward where our product works to meet the needs of many different types of creators across this horizontal platform. Our focus is on penetrating these markets with sustainable growth methods and delivering the value of helping event creators efficiently set up their events, helping them sell more tickets, and then expanding the revenue opportunity that they have for these events.

And I think what we're seeing in the growth numbers is the greenfield opportunity that we have outside of the US, particularly in our stronger growth markets that we mentioned where there really isn't a lot of formidable competition. And the Eventbrite brand is starting to really permeate those markets as we focus on delivering a great product.

Charles C. Baker

Chief Financial Officer, Eventbrite, Inc.

A

And in terms of quantifying it, as we've said and you can see some exhibits in the Shareholder Letter, the Self Sign-On is roughly half of our paid ticket volume. In our overseas markets, we have some markets where it's larger than that, some markets where it's about that percentage. So it's a little bit larger in the international business, but it's not appreciably different.

Nathan Mitchell

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Thank you.

Operator: Your next question comes from the line of Ryan Sundby with William Blair again.

Ryan Sundby

Analyst, William Blair & Co. LLC

Q

I don't know, Julia or Lanny, I'm not sure who to send this too, but any kind of implications or thoughts on once the relationship with Square and kind of how that is going to move forward? And if there's a – how your process is going to go, I guess, after that? That'd be great. Thanks.

Julia Hartz

Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

A

Sure. Thank you. Square is and has been a great partner to us and we'll look for opportunities to integrate the Square Solutions into our platform for our creators' benefit. And the, I guess, positive news on our front is that we partner with many different payment processing platforms and have done so for a very long time, and so we have many options and the benefit of that variety to offer to our customers, and that's really important to us as we continue to scale globally and meet the needs of different creators in different markets.

Ryan Sundby

Analyst, William Blair & Co. LLC

Q

That's good to hear. Thanks.

Julia Hartz

Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

A

Thanks.

Operator: Your next question comes from the line of Youssef Squali from SunTrust.

Nathan Mitchell

Analyst, SunTrust Robinson Humphrey, Inc.

Q

This is Nate, on for Youssef again. Maybe just one more on add-ons. Can you maybe speak to the uptake of the product this past quarter and how investors should be thinking about contribution to the top line over the next year, two years, three years? That would be helpful. Thank you.

Julia Hartz

Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

A

Thanks. So, add-ons is the ability for any event creator to sell something beyond a ticket on their event listing. So you can imagine parking, merchandise, upselling opportunities, and this is really important to our event creators because it helps them capture more revenue from an event. And so we've seen some really nice adoption from this feature in our both channels in Self Sign-On and sales. And while we're not reporting the specific numbers yet, what we see is a clear indication that when we add these adjacent functionalities to the ticketing product, it really helps open up not only more revenue but greater efficiency for event creators because they don't have to use another solution or integrate a solution to be able to sell more merchandise or experiences around the ticket. And so we'll be watching it closely and continue to refine it with our event creators' feedback. But so far, so good.

Nathan Mitchell

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thanks.

Operator: We have no further questions at this time. I would like to turn the call over to Julia Hartz for closing remarks.

Julia Hartz

Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

Great. I wanted to thank everyone for their participation on the call today and your interest in Eventbrite. And I also want to thank our employees again for their hard work and commitment. Have a great day.

Operator: Thank you.

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