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Eventbrite, Inc. (EB)

Q2 2019 Earnings Call

CORPORATE PARTICIPANTS

Stacey Finerman

Head of Investor Relations, Eventbrite, Inc.

Julia Hartz

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

Randy Befumo

Chief Financial Officer, Eventbrite, Inc.

OTHER PARTICIPANTS

Youssef Squali

Analyst, SunTrust Robinson Humphrey, Inc.

Ryan Sundby

Analyst, William Blair & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is, Rushe, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Eventbrite, Inc. Second Quarter 2019 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Stacey Finerman, you may begin your conference.

Stacey Finerman

Head of Investor Relations, Eventbrite, Inc.

Thank you, operator. Good afternoon and welcome to the second 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 net revenue and non-GAAP adjusted EBITDA guidance for the third quarter of 2019. We caution that such statements reflect our best judgment as of today, August 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 the events or circumstances after today or to reflect new information or the occurrence of unanticipated events except as required by law.

During this time, 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, Stacey, and thank you all for joining us this afternoon. Before we dive into top line results, I wanted to provide a bit more color on our core business and how we are focusing on current and future drivers of growth. We founded Eventbrite to bring the world together through live experiences by building a self-served business enablement platform for event creators.

The self-service nature by which a producer of any live experience can sign on to create, promote and manage their events is the defining characteristic of the platform. By building products integrating with third-party apps and distributing content off the platform to drive ticket sales, Eventbrite has grown to become a major enabler of event creator success.

Last year, we powered nearly 4 million events produced by 800,000 creators in 170 countries. This scale has allowed us to gain deep insights about the global live experiences market. Through data-driven segmentation, we have identified a subset of our most active customers, who use our platform on a frequent basis and represent a disproportionate amount of our revenue. A great example of a self-signed on highly active customer is CraftJam, which was founded by Nora Abousteit, a serial entrepreneur who has pioneered a social crafting business and experiential retail studio based in SoHo. CraftJam has hosted over 1,000 events on the Eventbrite platform.

Another example is AccuTrain, who organizes a series of professional development trainings for educators across the country. They have hosted over 600 events on the platform since 2015. To provide the best experience for these customers, we need to build the best self-serve product. In Q2, we leveraged data insights to inform our product strategy to address the near-term needs of these highly active creators, while simultaneously ensuring our platform is optimized for long-term growth.

An example of how we are meeting the needs of these creators in different channels is discussed in our letter with the launch of Add-Ons. This is an upgraded feature, which allows our customers to up-sell premium offerings to their ticket buyers like parking passes, VIP upgrades and drink vouchers. We initially launched this functionality for our Eventbrite Music clients, but moved swiftly to make the same capabilities available to all event creators the following month. Though the capability is new, we observe an average increase in revenue of 9% when these creators take advantage of Add-Ons.

Turning to second quarter results, quarterly paid tickets grew by 14.9% to \$26.5 million, led by strong growth in our self sign-on channel, which grew 21.5%, compared to the same period. Another bright spot of growth came from our international business.

In the second quarter, total international net revenue grew by 15.5% on a constant currency basis. This was led by strong growth in both, Spain and Australia. In fact, we crossed an exciting milestone this quarter in Australia, where we have now powered more than 1 million events. Our continued growth in the Australian market has been the result of creators like VINO-Palooza, who have been using our platform since 2013 to scale their wine tasting events internationally in 13 cities across six countries. In addition newer Australian creators are hosting frequent events. For example Ladies of Leisure is a creative collective designed to bring communities together through events like wine night, dance workshops, friendship speed dating and career classes and they have hosted more than 50 events on Eventbrite.

Turning the focus to North America, we have a clear line of sight to moving beyond the migration phase of the Ticketfly integration. Our goal is to have all music tickets sold on the Eventbrite platform by October 1, 2019. The team continues their work to ship critical product capabilities and provides support to both, migrated and yet to be migrated clients in order to ensure their ongoing success on the Eventbrite platform. We're encouraged by the progress made in the second quarter and now have fewer than 100 clients to migrate.

Flycon our annual music client event in June proved instrumental in driving the momentum of migration efforts in the second quarter. The independent music industry is a deeply relationship-driven business, so bringing together the Eventbrite Music team with more than 300 top venue owners, promoters, box office managers and talent buyers provided an even greater opportunity for meaningful dialogue with this tight-knit community. While there's still work to be done, we believe, we are making significant progress in our product and clearly showcasing our commitment to the independent live music industry.

We're balancing migration and retention work with attracting new clients to Eventbrite Music. We recently signed agreements with the Caverns, a concert venue built into a cave in Tennessee that has experienced significant growth since expanding their music performances. The Anchor Rock Club, a new 600 count venue in Atlantic City and Yerba Buena Center for the Arts here in San Francisco. I'm proud of how the Eventbrite team has focused on our creators first, working to prioritize their needs and listen to their feedback in order to strengthen our platform and business.

Randy will now briefly discuss our financial results and outlook before we address your questions. Randy?

Randy Befumo

Chief Financial Officer, Eventbrite, Inc.

Thank you, Julia. Full details on our second quarter financial results are available in our Shareholder Letter. Today, I will highlight a few key results from the business and give you more color on our expectations for the third quarter. Unless otherwise noted all comparisons will be on a year-over-year basis.

Total revenue for the second quarter was \$80.8 million, a 19.6% increase compared to the second quarter of 2018. Adjusting for the impact of the cyber incident in that prior period, revenue growth would have been 9.3%.

Our second quarter adjusted EBITDA was \$0.9 million, down slightly from the \$1.2 million in the prior year. Please see our Shareholder Letter for a reconciliation of adjusted EBITDA to GAAP financials. We use adjusted EBITDA to manage the business and have found it to be consistent with cash generation in the period.

Our second quarter results demonstrate our ability to expand global revenue. Continued paid ticket volume growth in our self sign-on channel of 20%-plus, emphasizes its strength and durability. The growth rate of our sales business improved modestly from first quarter levels driven by execution. Free cash flow on a trailing 12-month basis turned positive as well as impact from acquisitions and tax reserve releases dissipated.

Looking forward, we expect third quarter revenue to be in the range of \$74 million to \$78 million, representing 3.2% year-over-year growth at the midpoint. In our guidance, we are balancing the normal trend of consistent quarter-to-quarter in a fiscal year against the challenges of sun-setting the Ticketfly platform. We expect adjusted EBITDA to be in the range of minus \$9 million to minus \$5 million, representing a minus 9.2% adjusted EBITDA margin at the midpoint. The bulk of this loss is related to the impact of Roxodus.

We are focused on returning to positive adjusted EBITDA in the near-term while continuing to reinvest in the business to drive long-term growth. Two notes for those building models. First, guidance assumes normal seasonal trends. The business typically builds cash in the first and third quarters as more events are on sale than are paid out. While cash declines in the second and fourth quarters as more events are being paid out than are on sale.

Second, we anticipate migration impact in the third quarter as we sunset the Ticketfly platform with the full quarter impact appearing in Q4.

With that, we will open the call to questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question [ph] line of (00:11:17) Youssef Squali with SunTrust.

Youssef Squali

Analyst, SunTrust Robinson Humphrey, Inc.

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Hey, guys. Thank you very much for taking my question. I have two, if I could. First, Randy, on that 100 customers that are yet to shift to the Eventbrite platform by October 1, I was just wondering if you can maybe quantify the revenue and potentially their contribution profit to the business?

And then secondly maybe the adjusted EBITDA guidance for the third quarter, I think reflects that you just said the \$4 million penalty that or money that you're giving back to the creators. Number one, is that insured or can you get that back somehow from an insurance company? And two, even [ph] as I (00:12:03) ex that out, there is still a deterioration in your adjusted EBITDA. Can you maybe help us understand how you get there from the plus-\$1 million you just reported? Thank you.

Randy Befumo

Chief Financial Officer, Eventbrite, Inc.

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Yeah. Youssef. So, a few pieces, on the first, the less than 100 customers to move over, we aren't quantifying the revenue. But, in general, we've offered that larger customers have tended to be toward the end. And so, we've made progress, but we still have some work to do.

On the second, adjusted EBITDA for the third quarter, Roxodus and there's some attended cost around it that are the bulk of it. The rest of it is really in two buckets. Bucket one is, activities around sun-setting the Ticketfly platform, which we believe will be contained in quarter. And then, bucket two is a basket of work around building greater ability to scale operating expenses, particularly general and administrative in future quarters, which we also believe will largely be contained in the quarter.

Youssef Squali

Analyst, SunTrust Robinson Humphrey, Inc.

Okay. That's helpful. Thank you.

Q

Operator: Your next question [ph] line of (00:13:23) Ryan Sundby with William Blair.

Ryan Sundby

Analyst, William Blair & Co. LLC

Yeah. Hi. Thanks for taking my question. I just want to ask with the increasing functionality like Add-Ons, as you roll that out to your broader set of creators, is there a certain side or category that you're starting to see use the product more given this increased functionality?

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Julia Hartz

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

Sure. Thanks, Ryan. It's great to hear from you. Appreciate the question.

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Ryan Sundby

Analyst, William Blair & Co. LLC

Yeah.

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Julia Hartz

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

So this type of solution that we're offering goes beyond ticketing. It's a feature that allows for any type of event creator to charge for an ancillary item that is not counted against their ticket inventory. This is an example of a feature that was widely requested by not only music venues and music festivals, but across the board regardless of category. And so while we developed it in tight coordination with our migration efforts on music, we were able to quickly roll it out to the entire event creator base. And we think that that particularly for these highly active creators, who are hosting frequent events on Eventbrite and managing their business on Eventbrite, the ability to be able to effectively up-sell an item during the checkout process is really instrumental to the growth of their business. So, this is a step forward in expanding the functionality on the Eventbrite platform beyond just selling a ticket or selling a [ph] mission (00:14:56).

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Ryan Sundby

Analyst, William Blair & Co. LLC

Got it. And then, Randy, in the Shareholder Letter, it sounds like there was less churn in Q2 than you thought. Any kind of color behind why that took place? And then, it sounds like this will come in Q3, but just want to make sure I understand that.

Q

Randy Befumo

Chief Financial Officer, Eventbrite, Inc.

Yeah. I think your question largely holds the answer, Ryan. So what we're seeing is, that – we are seeing as we talk customer-by-customer, a weighted sense of where we think the migration results will actually be, but we're not calling it with any customer until they've actually left the platform and not moved to Eventbrite. And so, we didn't see some of the activity, we thought we might in Q2. But in the interest of conservatism, we are basically

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building that into the Q3 guidance, because we do not know for certain who is leaving until the day we shut down the platform.

Ryan Sundby

Analyst, William Blair & Co. LLC

Q

Okay. And then I guess on that with the 100 customers that are going to convert, is there a way to kind of quantify the number of customers that are on the platform they don't know where they're going to do?

Randy Befumo

Chief Financial Officer, Eventbrite, Inc.

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Not that – quantify now directionally, we have active conversations. Every customer has a unique set of interests, needs, issues, challenges, and so there's no real easy quantification although every customer we have a sort of weighted probability, and that's what we're using largely to build a forecast for the range of outcomes.

Ryan Sundby

Analyst, William Blair & Co. LLC

Q

Okay. Great. Thank you. Thank you guys.

Julia Hartz

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

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Thanks, Ryan.

Operator: There are 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.

Thank you all for joining us this afternoon.

Operator: Thank you.

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