

SHUTTERFLY  INC

Q4 2015 Earnings Conference Call

February 3, 2016

Jeff Housenbold, CEO

Phil Marineau, 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 first 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. 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.

Conference Call Agenda



- Review of 2015



- Introduction as incoming interim CEO



- Q4 / FY2015 financial performance
- Q1 / FY2016 outlook

Key Accomplishments in 2015

- Surpassed \$1B in revenue and \$100M in Free Cash Flow
 - Achieved record adjusted EBITDA of \$192.0M
 - Free Cash Flow Per Share of \$3.01, up 51%
 - Nearly doubled our Enterprise (SBS) business
 - Bought back a record \$216M or 4.9M shares
-

- Introduced dozens of innovative products and services
 - Shutterfly, Tiny Prints and Wedding Paper Divas performed well
-

- Completed building a network of production and fulfillment centers
-

- Kicked off building Shutterfly 3.0, our modernized platform
- Began building our SBS platform with a major customer

2015 Financial Results

(\$ in millions except per share amounts)

	2015	2014	Change (Y/Y)
Net Revenue	\$1,059.4	\$921.6	15%
Adjusted EBITDA *	\$192.0	\$166.8	15%
Net Loss per Share (GAAP)	\$(0.02)	\$(0.20)	90%
Free Cash Flow	\$110.6	\$76.5	45%
Free Cash Flow per Share	\$3.01	\$1.99	51%

- Record FY15 Adjusted EBITDA of \$192.0M or \$193.9M excluding executive severance of \$1.9M
- Record FY15 Free Cash Flow of \$110.6M, increasing 45% from prior year, and a 51% increase in Free Cash Flow Per Share to \$3.01, with excellent operational execution

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

2015 Consumer Metrics

	2015	2014	Change (Y/Y)
Customers	9,750,590	9,206,162	6%
Orders	25,805,801	21,772,719	19%
Average Order Value (AOV)	\$37.26	\$40.00	(7)%
AOV excluding GrooveBook and Treat*	\$40.98	\$41.14	0%

Customer loyalty remains high with approximately 75% of our consumer revenues coming from repeat customers

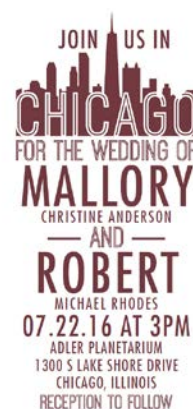
* GrooveBook transaction was completed on October 31, 2014 and Treat closure occurred in the first quarter of 2015

Strong Top Three Brand Performance



Shutterfly brand introduced premium options including foil cards, colored envelopes and scalloped edges

Tiny Prints launched a new glitter offering and focused on solutions-themed suites and premium features including envelope liners to help the customer stand out



Wedding Paper Divas offered “Affordable Luxury” – thermography, personalized letterpress and laser cut premium options. Launched “True to the Two of You” for real world couples

Strong Progress in Mobile

- 12% of Shutterfly brand revenues in Q4
- 38% year over year revenue growth in 2015
- Introduced universal iOS app and added features and functionality
- Added more products available for ordering from mobile sources



Throwback



Auto-upload

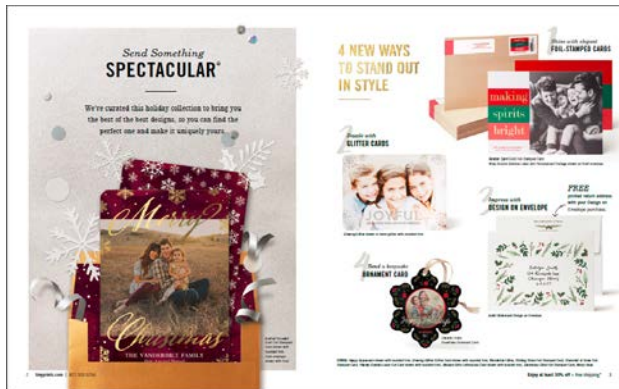


More Products

Omni-Channel Marketing Benefits



Exclusive photo partner on ships



Instagram



- Building Brand Awareness and Attracting Customers

Optimized Manufacturing Footprint



Fort Mill, SC



Shakopee, MN



Tempe, AZ

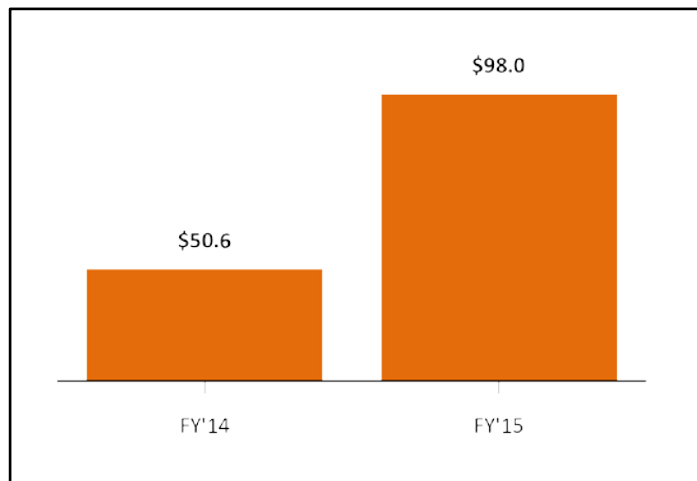
- First Fourth Quarter with all three new manufacturing facilities fully operational

SBS / Enterprise - Integrated Marketing Partner to Fortune 1000 Companies

- More than a traditional printer – We are an integrated marketing partner
- Building scalable platform that enables clients' teams to manage all elements throughout the process

(\$ in millions)

Enterprise Revenues



Shutterfly 3.0 – Next-Gen E-Commerce Platform

*Creating a world-class memory management service
connected to the smartest personalized e-commerce solutions*

Phase One

1. Provide a **next generation photo** service

- Integrate ThisLife + shutterfly.com to provide better user experience (one service, one site, one set of apps and one well-known brand)
- Intuitive and organizational features will now be on Shutterfly.com
- ThisLife brand will go away when completed
- Beginning to roll out in Q1 and will continue throughout the year

2. **Increase mobile** footprint and capabilities

- Make the purchasing process easier and more robust on mobile
- New features and products to be added throughout 2016

Introducing Phil Marineau as Interim CEO



- SFLY Director for nine years; Chairman since May 2007
- Former President and CEO of Levi's and Pepsi-Cola NA
- Former President and COO Quaker Oats and Dean Foods

Q4 FY15 Financial Results Review



Mike Pope, CFO

Q4 Financial Results Summary

(\$ in millions except per share amounts)

	Q4 FY15	Q4 FY14	Change (Y/Y)
Net Revenue	\$548.1	\$483.3	\$64.8
Adjusted EBITDA *	\$181.6	\$164.6	\$17.0
Net Income per Share (GAAP)	\$3.57	\$2.51	\$1.06
Net Income per Share (Non-GAAP)**	\$3.45	\$2.57	\$0.88

Q4'15 Adjusted EBITDA growth driven by healthy revenue growth, scale efficiencies in manufacturing and measured operating expense growth.

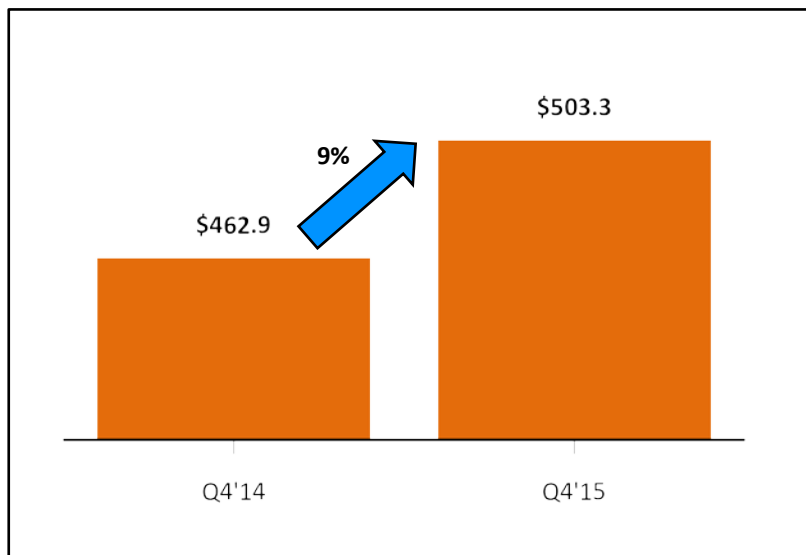
* Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization and stock-based compensation.

** 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.

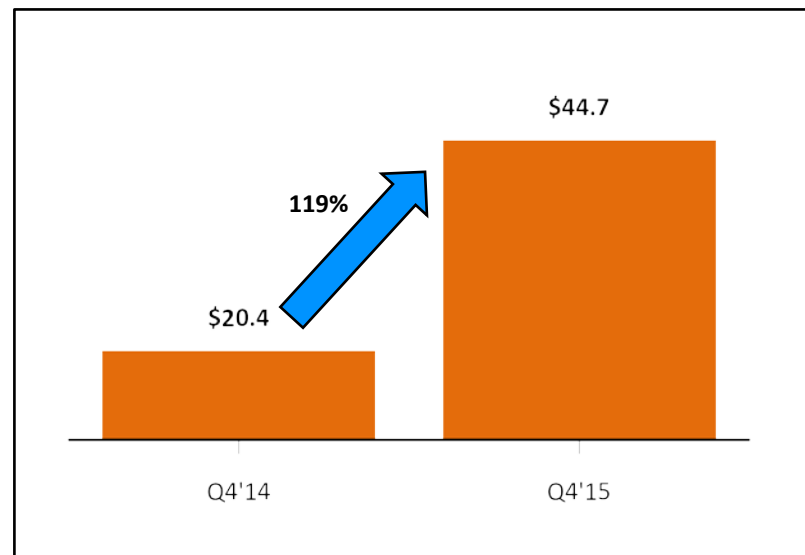
Fourth Quarter Consumer and Enterprise Revenues

(\$ in millions)

Consumer



Enterprise

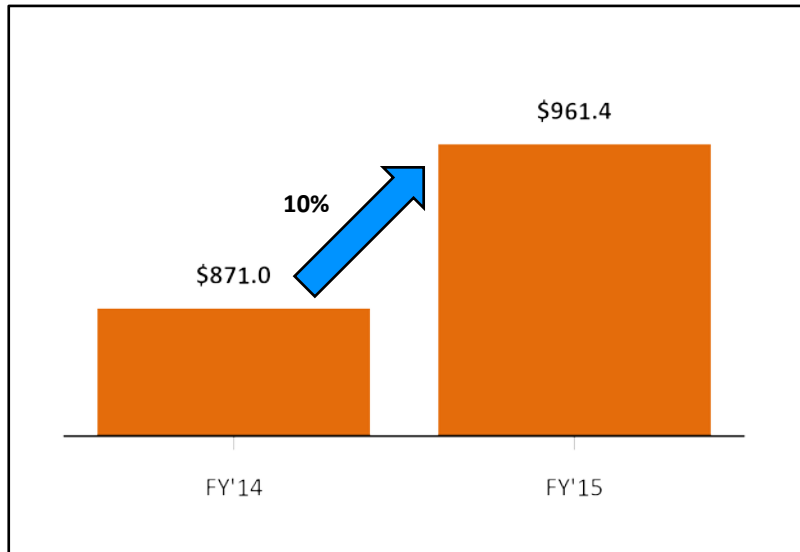


2015 Enterprise Revenues represented 8.2% of Total Q4 Revenues

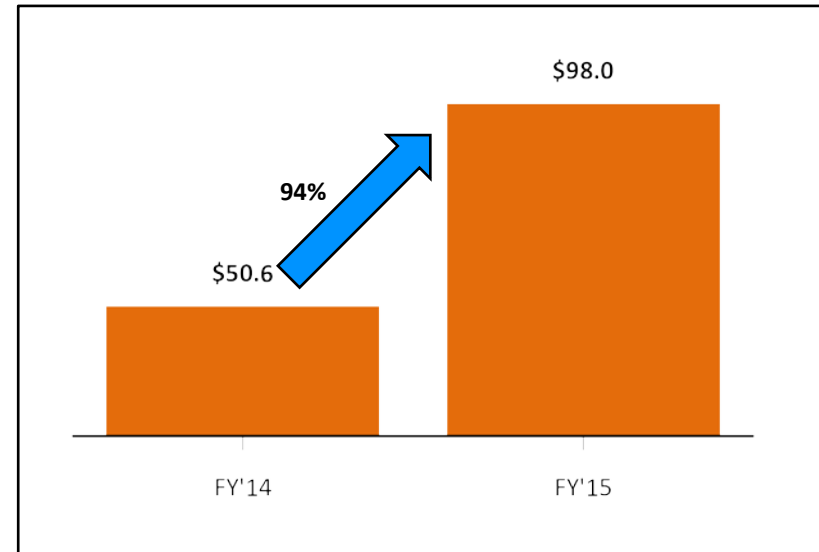
Full Year Consumer and Enterprise Revenues

(\$ in millions)

Consumer



Enterprise



2015 Enterprise Revenues represented 9.3% of Total 2015 Revenues

Q4 Consumer Metrics

	Q4 FY15	Q4 FY14	Change (Y/Y)
Customers	6,141,073	5,673,174	8%
Orders	10,280,487	9,592,330	7%
Average Order Value (AOV) *	\$48.96	\$48.26	1%
AOV excluding GrooveBook **	\$51.95	\$51.55	1%

AOV up slightly from Q4'14 and reflects the effect of higher list prices and a shift to premium products, offset by deeper discounts and an increase in promotional offers to first time trial customers.

* Average order value excludes Enterprise revenue

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

GAAP – Gross Profit/Margin

(\$ in millions)	Q4 FY15	Q4 FY14	Q4 FY15	Q4 FY14
Net Revenue	\$548.1	\$483.3	<i>of Total Net Revenues</i>	
Gross Profit / Margins	\$319.3	\$280.0	58.3%	57.9%
Gross Profit / Margins (Non-GAAP)*	\$321.9	\$283.8	58.7%	58.7%

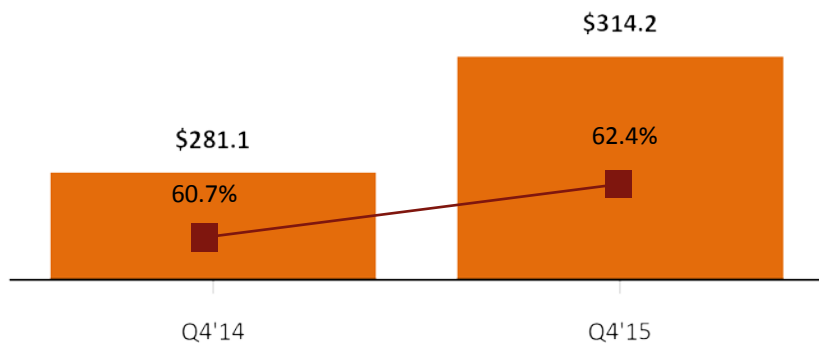
Q4'15 gross margin impacted by SBS shipping pass through revenue. Excluding the pass through revenue, gross margin would have been 59.8%.

* 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.

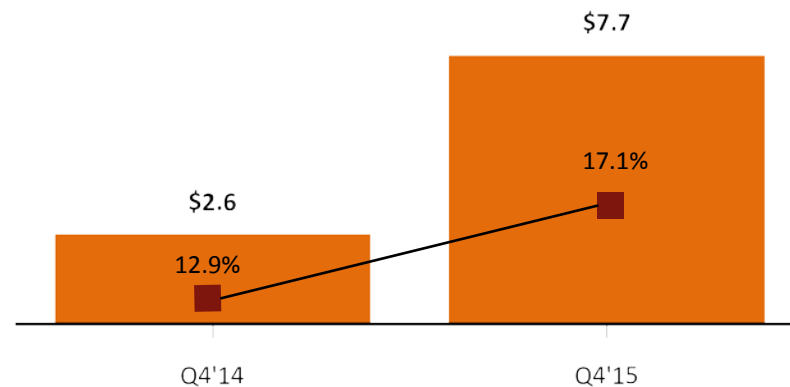
Gross Profit/Margin by Segment

(\$ in millions)

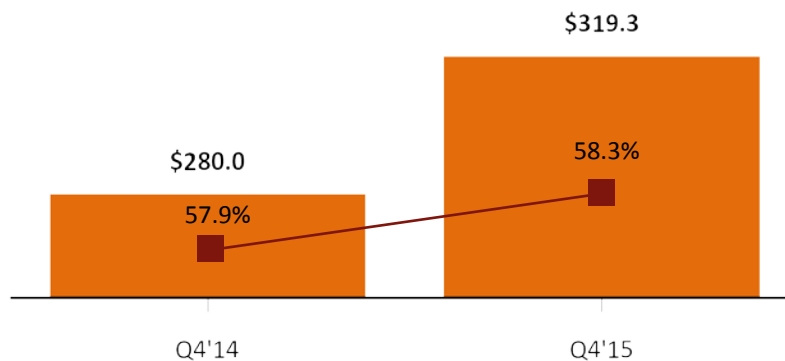
Consumer Gross Profit/Margin



Enterprise Gross Profit/Margin



Consolidated Gross Profit/Margin



GAAP – Total Operating Expenses

(\$ in millions)	Q4 FY15	Q4 FY14	Q4 FY15	Q4 FY14
Net Revenue	\$548.1	\$483.3	<i>of Total Net Revenues</i>	
Gross Profit / Margins	\$319.3	\$280.0	58.3%	57.9%
Operating Expenses	\$177.4	\$159.5	32.4%	33.0%
Operating Expenses (excl. SBC)	\$167.8	\$143.1	30.6%	29.6%

- Operating expenses increasing 11% over prior year, driven by continued T&D investments and higher customer acquisition costs.
- Q415 includes \$1.9M executive severance charge

GAAP – Technology and Development Expense

(\$ in millions)	Q4 FY15	Q4 FY14	Q4 FY15	Q4 FY14
Net Revenue	\$548.1	\$483.3	<i>of Total Net Revenues</i>	
Gross Profit / Margins	\$319.3	\$280.0	58.3%	57.9%
Operating Expenses	\$177.4	\$159.5	32.4%	33.0%
Technology & Dev.	\$43.4	\$36.5	7.9%	7.6%
T&D (excl. SBC, D&A)	\$31.7	\$25.8	5.8%	5.3%

Higher T&D expense levels driven by incremental costs associated with continued investments in headcount for Shutterfly 3.0 and technology investments required to scale our Enterprise business

GAAP – Sales and Marketing Expense

(\$ in millions)	Q4 FY15	Q4 FY14	Q4 FY15	Q4 FY14
Net Revenue	\$548.1	\$483.3	<i>of Total Net Revenues</i>	
Gross Profit / Margins	\$319.3	\$280.0	58.3%	57.9%
Operating Expenses	\$177.4	\$159.5	32.4%	33.0%
Technology & Dev.	\$43.4	\$36.5	7.9%	7.6%
Sales & Marketing	\$98.7	\$87.3	18.0%	18.1%
S&M (excl. SBC, D&A)	\$89.7	\$76.6	16.4%	15.8%

Growth in Sales and Marketing expense was largely driven by modest increases in headcount and higher media costs.

GAAP - General and Administrative Expense

(\$ in millions)	Q4 FY15	Q4 FY14	Q4 FY15	Q4 FY14
Net Revenue	\$548.1	\$483.3	<i>of Total Net Revenues</i>	
Gross Profit / Margins	\$319.3	\$280.0	58.3%	57.9%
Operating Expenses	\$177.4	\$159.5	32.4%	33.0%
Technology & Dev.	\$43.4	\$36.5	7.9%	7.6%
Sales & Marketing	\$98.7	\$87.3	18.0%	18.1%
General & Admin.	\$35.3	\$35.7	6.4%	7.4%
G&A (excl. SBC, CC fees, & D&A)	\$17.8	\$14.4	3.2%	3.0%

Excluding executive severance charge of \$1.9M, G&A was 6% of revenue, a decrease of 1% from Q4 of last year.

Non-GAAP Adjusted EBITDA

(\$ in millions)	Q4 FY15	Q4 FY14	Q4 FY15	Q4 FY14
Net Revenue	\$548.1	\$483.3	<i>of Total Net Revenues</i>	
Gross Profit / Margins	\$319.3	\$280.0	58.3%	57.9%
Operating Expenses	\$177.4	\$159.5	32.4%	33.0%
Technology & Dev.	\$43.4	\$36.5	7.9%	7.6%
Sales & Marketing	\$98.7	\$87.3	18.0%	18.1%
General & Admin.	\$35.3	\$35.7	6.4%	7.4%
Operating Income	\$141.9	\$120.5	25.9%	24.9%
Adjusted EBITDA *	\$181.6	\$164.6	33.1%	34.1%

Adjusted EBITDA excluding severance charges at \$183.5M or 33.5% of Net Revenues.

* 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 Income

(\$ in millions except per share amounts)	Q4 FY15	Q4 FY14	Q4 FY15	Q4 FY14
Net Revenue	\$548.1	\$483.3	<i>of Total Net Revenues</i>	
Gross Profit / Margins	\$319.3	\$280.0	58.3%	57.9%
Operating Expenses	\$177.4	\$159.5	32.4%	33.0%
Operating Income	\$141.9	\$120.5	25.9%	24.9%
Adjusted EBITDA*	\$181.6	\$164.6	33.1%	34.1%
Tax Rate	3.9%	14.1%	—	—
Net Income (GAAP)	\$131.1	\$99.7	23.9%	20.6%
Net Income (Non-GAAP)**	\$126.8	\$101.7	23.1%	21.0%
Net Income per Share (GAAP)	\$3.57	\$2.51	—	—
Net Income per Share (Non-GAAP)**	\$3.45	\$2.57	—	—

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

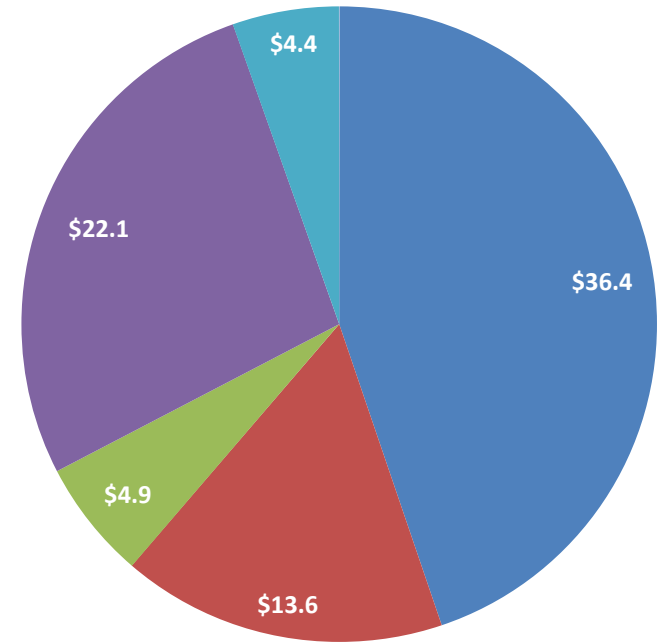
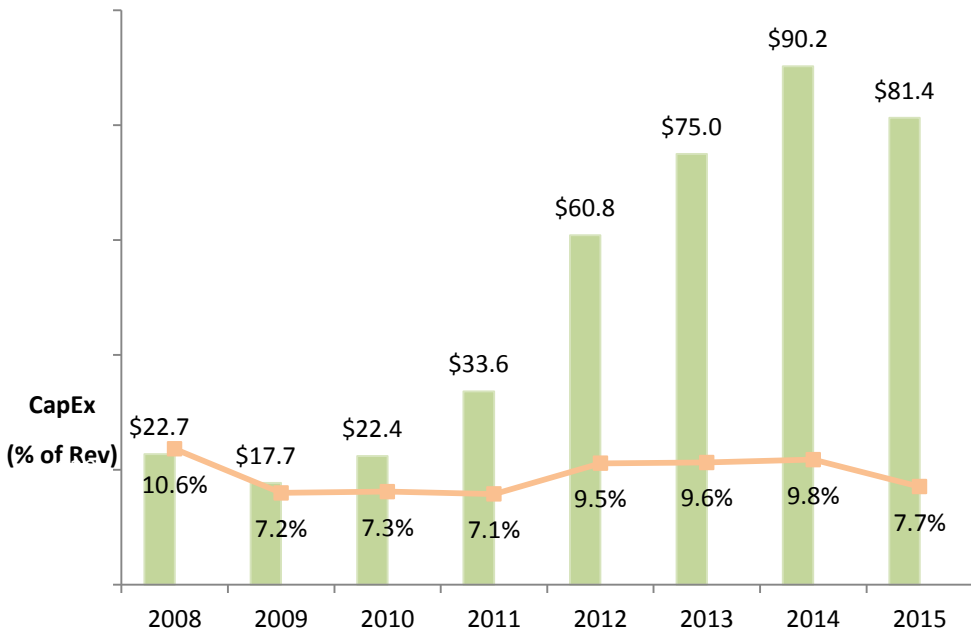
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Capital Expenditures

(\$ in millions)

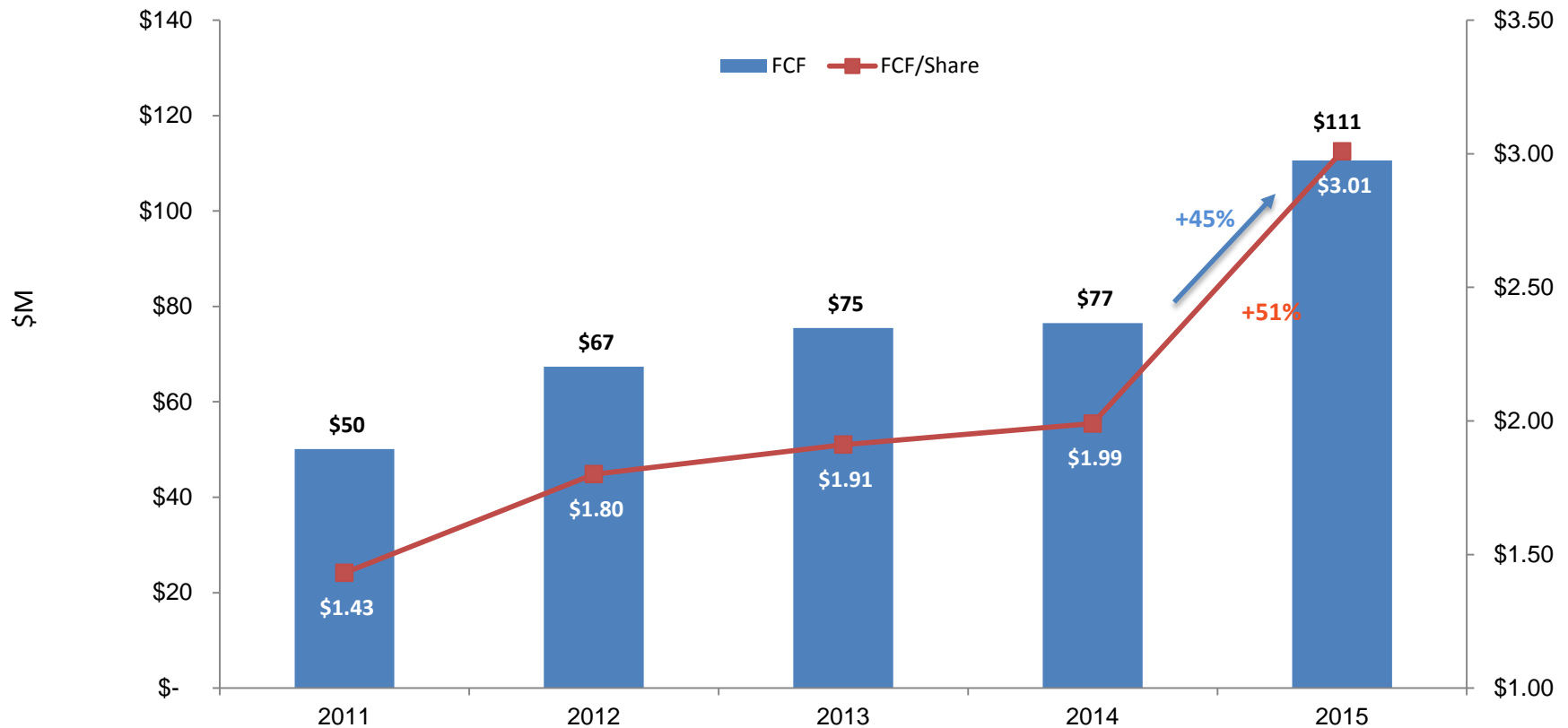
Annual Capital Expenditures

FY15 CapEx: \$81.4M



- Computer Equipment, Software & Office Equip
- Printing Lab Equipment
- F&F, Bldg Improv
- Cap'd R&D (excluding SBC)
- Rental Equipment

Improving Free Cash Flow



- FY15 free cash flow ⁽¹⁾ grew \$34M or 45% from FY14.
- FY16 free cash flow expected to grow 16% YoY at the midpoint of our guidance range.

(1) Free cash flow is defined at EBITDA less capital expenditures.

Share Repurchase Update

Total shares repurchased in 2014 and 2015: 6.9 million at an Average Price of \$44.36 per share

<u>Total Repurchases</u>	<u>No. of Shares</u>	<u>Average Price</u>	<u>Total \$ (M) incl. comm.</u>
Total 2014 Repurchases	1,961,085	\$45.29	\$88.8
Total 2015 Repurchases	4,907,675	\$43.99	\$215.9
Total 2014 & 2015 Repurchases	6,868,760	\$44.36	\$304.7
Remaining \$ Under Authorization	-	-	\$95.3

Q1 FY16 Guidance (as of February 3, 2016)

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

	Q1 FY16 (GAAP)	Q1 FY16 (Non-GAAP)
Net Revenues	\$173.0 to \$180.0	—
<i>Year-over-year Growth</i>	<i>8.1% to 12.5%</i>	—
Gross Profit Margins	40.0% to 41.0%	41.5% to 42.5%
Operating Loss	(\$46.2) to (\$43.2)	(\$29.0) to (\$26.0)
Adjusted EBITDA *	—	(\$4.8) to (\$1.8)
Adjusted EBITDA excluding executive severance*	—	(\$1.5) to \$1.5
Effective Tax Rate	31.5% to 33.9%	—
Net Loss per Share	(\$1.01) to (\$0.92)	(\$0.94) to (\$0.85)
Weighted Average Shares	35.0	—

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

2016 Guidance (as of February 3, 2016)

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

	FY16 (GAAP)	FY16 (Non-GAAP)
Net Revenues	\$1,120 to \$1,160	—
<i>Year-over-year Growth</i>	<i>5.7% to 9.5%</i>	—
Gross Profit Margins	50.9% to 51.7%	52.0% to 52.6%
Operating Income	\$32.6 to \$53.9	\$103.7 to \$122.7
Adjusted EBITDA *	—	\$203.9 to \$222.9
Adjusted EBITDA excluding executive severance*	—	\$207.2 to \$226.2
Effective Tax Rate	31.5% to 33.9%	—
Net Income per Share **	\$0.19 to \$0.58	\$0.47 to \$0.86
Weighted Average Shares	36.0	—
Capital Expenditures	7.1% to 7.8%	—

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

** 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.

Concluding Remarks



- Outstanding milestone year
- Excited for future prospects
- Thank you to the team

Q&A

Reconciliation of Non-GAAP Gross Margin

(\$ in millions)

Reconciliation of Non-GAAP Gross Margin

	<u>Q4 FY15</u>	<u>Q4 FY14</u>
GAAP gross profit	\$319.3	\$280.0
Stock-based compensation	1.0	0.9
Amortization of intangible assets	1.6	2.9
Non-GAAP gross profit	<u>\$321.9</u>	<u>\$283.8</u>

Reconciliation of Non-GAAP Adjusted EBITDA

(\$ in millions)

	<u>Q4 FY15</u>	<u>Q4 FY14</u>
Reconciliation of Non-GAAP Adjusted EBITDA		
GAAP net income	\$131.1	\$99.7
Interest expense / (income), net	5.6	4.4
Tax provision	5.3	16.4
Depreciation and amortization	29.0	26.8
Stock-based compensation expense	10.6	17.3
Non-GAAP Adjusted EBITDA	<u>\$181.6</u>	<u>\$164.6</u>

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

Net cash provided by operations	\$272.7	\$259.5
Interest expense / (income), net	5.6	4.4
Tax provision	5.3	16.4
Changes in operating assets/liabilities	(87.0)	(100.7)
Other adjustments	(15.0)	(15.0)
Non-GAAP Adjusted EBITDA	<u>\$181.6</u>	<u>\$164.6</u>

Reconciliation of Non-GAAP Net Income Per Share

(\$ in millions, except per share amounts)

Share amounts in thousands

	<u>Q4 FY15</u>	<u>Q4 FY14</u>
Reconciliation of Non-GAAP Net Income Per Share		
GAAP net income	\$131.1	\$99.7
Add back interest expense related to:		
Amortization of debt discount	3.2	3.0
Amortization of debt issuance costs	0.3	0.3
0.25% coupon	0.2	0.1
Tax effect	(8.0)	(1.4)
Non-GAAP net income	<u>\$126.8</u>	<u>\$101.7</u>
GAAP Shares outstanding	36,743	39,631
Add: Dilutive effect of convertible notes	0	0
Non-GAAP Shares outstanding	<u>36,743</u>	<u>39,631</u>
GAAP net Income per share	\$3.57	\$2.51
Non-GAAP net income per share	\$3.45	\$2.57