SHUTTERFLY INC

Q1 2015 Earnings Conference Call

APRIL 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 second 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 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

- Insights on Q1 performance
- Progress on strategic imperatives

- Q1 financial performance
- Q2 / FY2015 outlook

Q1'15 Financial Results

($ in millions except per share amounts)

	Q1 FY15	Q1 FY14	Change (Y/Y)
Net Revenue	$160.0	$137.1	17%
Adjusted EBITDA *	$(0.9)	$0.2	NM
Net Loss per Share (GAAP)	$(1.19)	$(0.89)	(34)%
Free Cash Flow	$(18.9)	$(21.3)	11%

- All key financial metrics ahead of expectations
- Good execution, strong customer activity and continued Enterprise growth
- Results increase our conviction in FY 2015 outlook

- 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

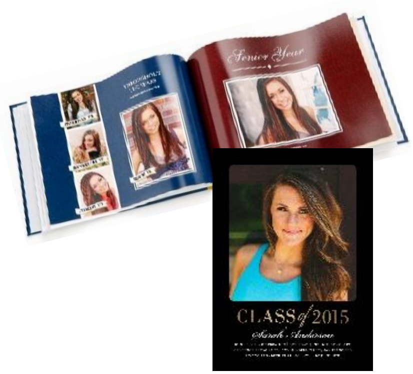
	Q1 FY15	Q1 FY14	Change (Y/Y)
Customers	3,186,588	2,557,245	25%
Orders	5,156,375	3,869,201	33%
Average Order Value (AOV)	$28.86	$33.76	(15)%
AOV excluding GrooveBook *	$32.40	$33.76	(4)%

- Strong customer activity across the board
- AOV reflects Q1 promotional cadence, targeted CRM initiatives, co-marketing partnerships
- Excluding Groovebook, Q1 customer and order growth was 10% and 16%, respectively

* GrooveBook transaction was completed on October 31, 2014

Consumer Highlights

- Strong performance for Shutterfly in every product area
- Good execution on Q1 post-holiday promotions, partner programs and email optimization
- Benefit from earlier Easter timing
- Strong C&S performance ahead of graduation season
- Mobile growth: 13% of Q1 SFLY revenue (9% in Q1’14 and 10% in Q4’14)



Strategic Imperatives

Thoughtfully balancing our strategic investments to deliver increased shareholder value over both the short and long term

Innovation and Differentiation	Scale and Operational Efficiency
Maintaining our customer-centric approach and commitment to quality, design-forward products and services	*Scale economies from vertically integrated approach extends competitiveness, drives profits and improves customer satisfaction*
• Product assortment and selection • User experience refresh • ThisLife launch • Mobile offering expansion • Wedding offering enhancement • Enterprise business growth	• Co-lo datacenter move to Nevada • State-of-the-art facilities in SC, MN and AZ • Treat brand discontinuance • Call center repatriation • Shutterfly 3.0 • Combining brands and back-end platform

2015 & Beyond

HIGHLY-ENGAGING WEB APP
(Memories + Commerce)

BEST-IN-CLASS MOBILE APPS
(Memories + Commerce)

SHUTTERFLY 3.0

NEXT-GENERATION BACK-END AND MEDIA PLATFORM
(Scalable, Flexible, Performant)

INTELLIGENT ALGORITHMS AND FEATURES

Moving Forward

- Strong Q1 performance and customer activity underscore that we are on the right strategic path
- We have a vision to drive long-term growth and value creation
- We have invested significantly in making this vision a reality
- Executive and Board leadership have a proven track record of operational and financial execution
- Both management and Board are committed to addressing shareholder interests

Q1 FY15 Financial Results Review

Brian Regan, CFO

Q1 Financial Results Summary

($ in millions except per share amounts)

	Q1 FY15	Q1 FY14	Change (Y/Y)
Net Revenue	$160.0	$137.1	$22.9
Adjusted EBITDA *	$(0.9)	$0.2	$(1.1)
Net Loss per Share (GAAP)	$(1.19)	$(0.89)	$(0.30)
Net Loss per Share (Non-GAAP)**	$(1.11)	$(0.82)	$(0.29)

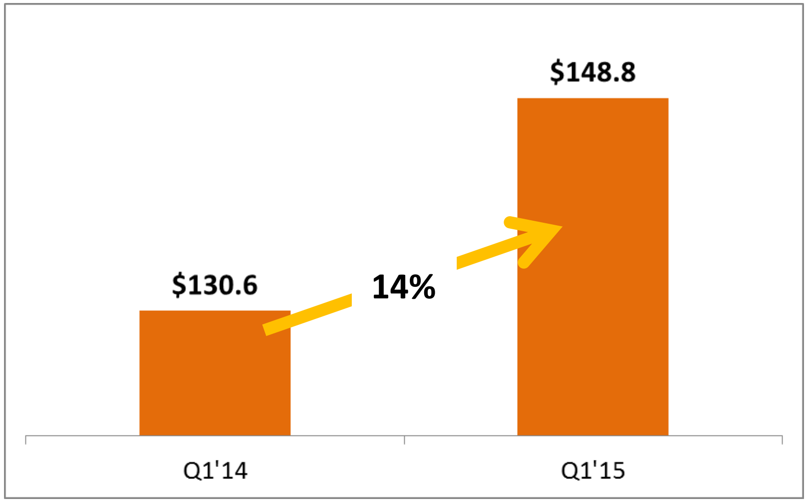
* Adjusted EBITDA is defined as earnings before interest, taxes, depreciation, amortization and stock-based compensation.

** 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.

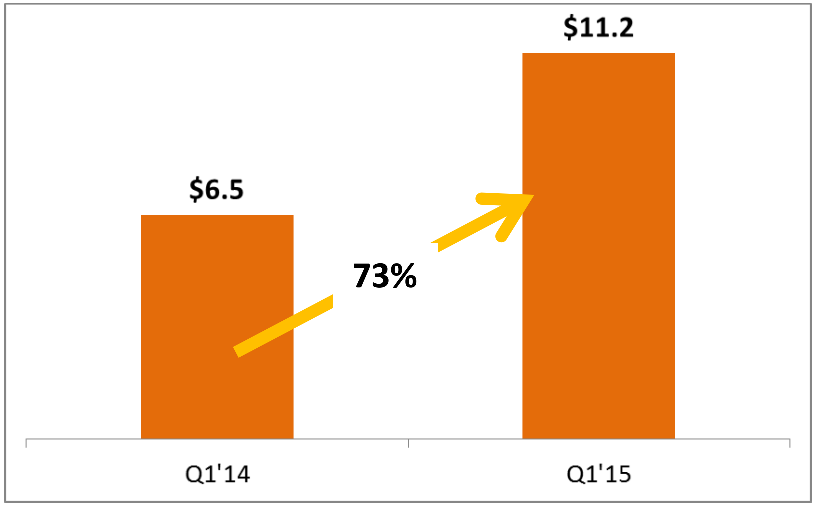
Consumer and Enterprise Revenues

($ in millions)

Consumer



Enterprise



Q1 Enterprise Revenues represented 7% of Total Q1 Revenues

Q1 Consumer Metrics

	Q1 FY15	Q1 FY14	Change (Y/Y)
Customers	3,186,588	2,557,245	25%
Orders	5,156,375	3,869,201	33%
Average Order Value (AOV) *	$28.86	$33.76	(15)%

- AOV excluding Groovebook declined 4%, reflecting pricing and promotional cadence specific to Q1 post-holiday approach
- Excluding Groovebook, Q1 customer and order growth was 10% and 16%, respectively

* Average order value excludes Enterprise revenue.

GAAP – Gross Profit/Margin

($ in millions)	Q1 FY15	Q1 FY14	Q1 FY15	Q1 FY14
Net Revenue	$160.0	$137.1	*of Total Net Revenues*	
Gross Profit / Margins	$65.3	$60.8	41%	44%
Gross Profit / Margins (Non-GAAP)*	$69.3	$64.6	43%	47%

Q1's lower gross margin percentage was driven by:

- Enterprise continuing to grow more quickly than our Consumer businesses
- Increased depreciation from incremental capacity and costs primarily related to our manufacturing facilities
- Promotions and partner programs specific to the Q1 post-holiday period

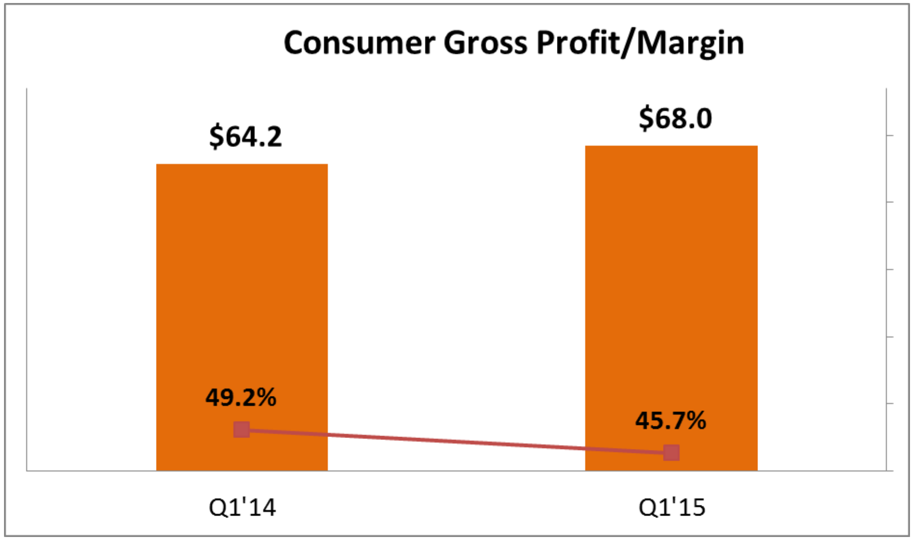
Difficult Y/Y comparisons continue until Q3 when we lap new Shakopee, MN facility

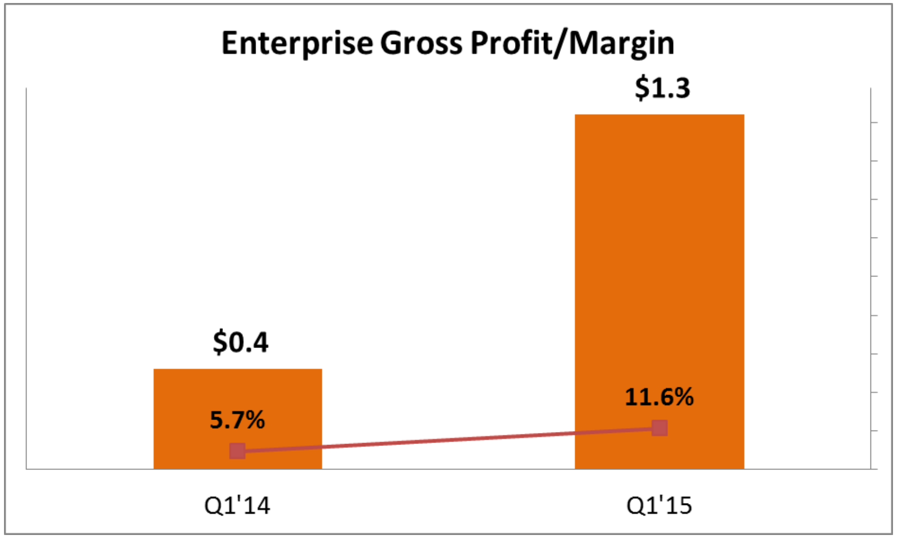
Pleased with better-than-expected efficiencies in ongoing facilities in Q1

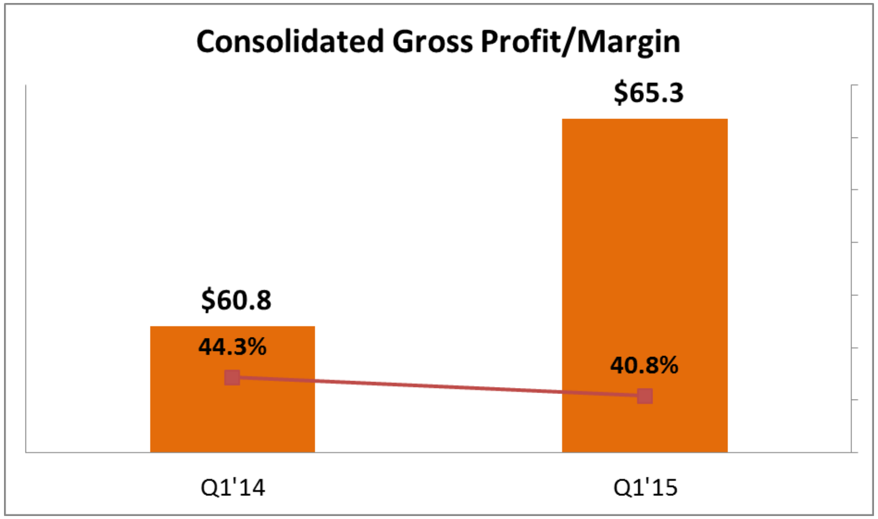
* Non-GAAP Gross Profit/Margins excludes stock-based compensation and amortization of intangible assets. A non-GAAP to GAAP reconciliation is provided at the end of this presentation.

Gross Profit/Margin by Segment

($ in millions)







GAAP – Total Operating Expenses

($ in millions)

	Q1 FY15	Q1 FY14	Q1 FY15	Q1 FY14
Net Revenue	$160.0	$137.1	*of Total Net Revenues*	
Gross Profit / Margins	$65.3	$60.8	41%	44%
Operating Expenses	$111.5	$99.4	70%	72%
Operating Expenses (excl. SBC)	$94.9	$84.4	59%	62%

Q1 operating expenses reflect increased headcount and facilities costs, but gained leverage as percentage of revenue

GAAP – Technology and Development Expense

($ in millions)	Q1 FY15	Q1 FY14	Q1 FY15	Q1 FY14
Net Revenue	$160.0	$137.1	*of Total Net Revenues*	
Gross Profit / Margins	$65.3	$60.8	41%	44%
Operating Expenses	$111.5	$99.4	70%	72%
Technology & Dev.	$37.4	$31.5	23%	23%
T&D (excl. SBC, D&A)	$27.2	$22.4	17%	16%

The increase in Technology and Development expense was driven by:

- Certain costs related to non-recurring restructuring activities
- Higher depreciation expenses related to datacenter relocation
- Incremental costs from investments in headcount to support core products, mobile initiatives and Shutterfly 3.0

GAAP – Sales and Marketing Expense

($ in millions)	Q1 FY15	Q1 FY14	Q1 FY15	Q1 FY14
Net Revenue	$160.0	$137.1	*of Total Net Revenues*	
Gross Profit / Margins	$65.3	$60.8	41%	44%
Operating Expenses	$111.5	$99.4	70%	72%
Technology & Dev.	$37.4	$31.5	23%	23%
Sales & Marketing	$44.5	$42.1	28%	31%
S&M (excl. SBC, D&A)	$33.5	$31.7	21%	23%

Sales and Marketing expense up Y/Y due to:

- Modest increases in headcount
- Co-marketing partner promotions

Marketing spend as a percentage of revenue continued to gain efficiencies

GAAP - General and Administrative Expense

($ in millions)	Q1 FY15	Q1 FY14	Q1 FY15	Q1 FY14
Net Revenue	$160.0	$137.1	*of Total Net Revenues*	
Gross Profit / Margins	$65.3	$60.8	41%	44%
Operating Expenses	$111.5	$99.4	70%	72%
Technology & Dev.	$37.4	$31.5	23%	23%
Sales & Marketing	$44.5	$42.1	28%	31%
General & Admin.	$29.6	$25.8	19%	19%
G&A (excl. SBC and CC fees)	$16.8	$15.5	10%	11%

Excluding stock-based comp and credit card processing fees, G&A expenses represented 10% of quarterly net revenues, down from 11% in Q1 of last year

Non-GAAP Adjusted EBITDA

($ in millions)

	Q1 FY15	Q1 FY14	Q1 FY15	Q1 FY14
Net Revenue	$160.0	$137.1	*of Total Net Revenues*	
Gross Profit / Margins	$65.3	$60.8	41%	44%
Operating Expenses	$111.5	$99.4	70%	72%
Technology & Dev.	$37.4	$31.5	23%	23%
Sales & Marketing	$44.5	$42.1	28%	31%
General & Admin.	$29.6	$25.8	19%	19%
Operating Loss	$(46.2)	$(38.6)	(29%)	(28%)
Adjusted EBITDA *	$(0.9)	$0.2	(1%)	0.1%

Adjusted EBITDA in Q1'15 would have been a positive $2 million excluding incremental proxy costs and non-recurring restructuring charges

- 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)	Q1 FY15	Q1 FY14	Q1 FY15	Q1 FY14
Net Revenue	$160.0	$137.1	*of Total Net Revenues*	
Gross Profit / Margins	$65.3	$60.8	41%	44%
Operating Expenses	$111.5	$99.4	70%	72%
Operating Loss	$(46.2)	$(38.6)	(29%)	(28%)
Adjusted EBITDA*	$(0.9)	$0.2	(1%)	0.1%
Tax Rate	(11.3%)	(19.2%)	-	-
Net Loss (GAAP)	$(45.1)	$(34.2)	(28%)	(25%)
Net Loss (Non-GAAP)**	$(42.0)	$(31.5)	(26%)	(23%)
Net Loss per Share (GAAP)	$(1.19)	$(0.89)	-	-
Net Loss per Share (Non-GAAP)**	$(1.11)	$(0.82)	-	-

* 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.
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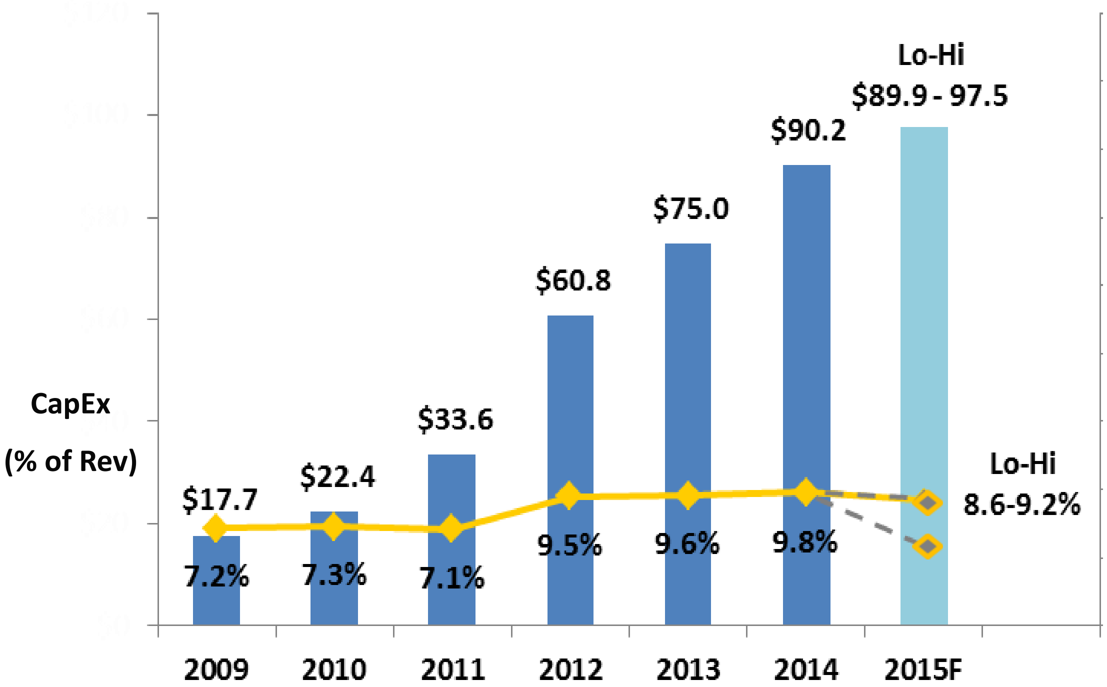
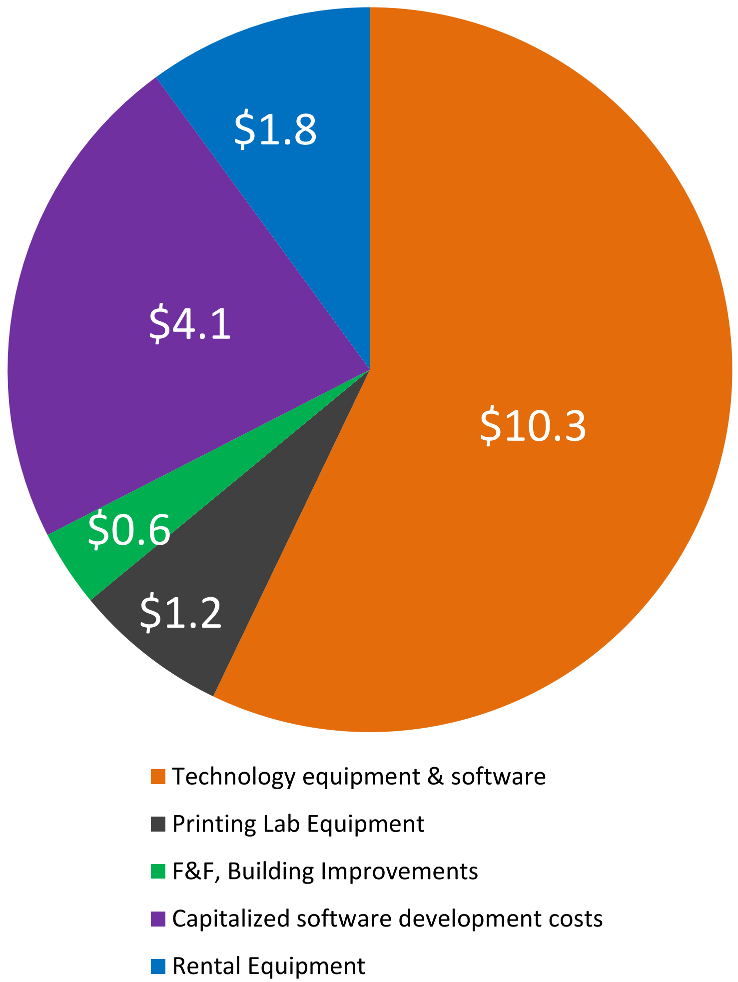
Capital Expenditures

($ in millions)

Annual Capital Expenditures



Q1FY15 CapEx: $18.0M



Q2 FY15 Guidance *(as of April 29, 2015)*

($ and shares in millions, except per share components)	**Q2 FY15** (GAAP)	**Q2 FY15** (Non-GAAP)
Net Revenues	$175.5 to $179.5	-
Year-over-year Growth	10.3% to 12.8%	-
Gross Profit Margins	43.7% to 44.4%	45.4% to 46.1%
Operating Loss	($44.5) to ($39.9)	($18.4) to ($15.4)
Adjusted EBITDA *	-	$5.5 to $7.5
Effective Tax Rate	10.0% to 16.0%	-
Net Loss per Share	($1.10) to ($1.07)	($1.02) to ($0.99)
Weighted Average Shares	37.9	-

- 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.

2015 Guidance *(as of April 29, 2015)*

($ and shares in millions, except per share components)	FY 2015 (GAAP)	FY 2015 (Non-GAAP)
Net Revenues	$1,045.0 to $1,060.0	-
Year-over-year Growth	*13.4% to 15.0%*	-
Gross Profit Margins	49.0% to 50.5%	50.1% to 51.6%
Operating Income / (Loss)	($0.4) to $10.8	$96.6 to $106.9
Adjusted EBITDA *	-	$195.0 to $205.0
Effective Tax Rate	10.0% to 16.0%	-
Net Income / (Loss) per Share **	($0.46) to ($0.23)	($0.14) to $0.12
Weighted Average Shares	37.7	-
Capital Expenditures	8.6% to 9.2%	-

* 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.

Q&A

Reconciliation of Non-GAAP Gross Margin

($ in millions)	Q1 FY15	Q1 FY14
Reconciliation of Non-GAAP Gross Margin		
GAAP gross profit	$65.3	$60.8
Stock-based compensation	1.2	1.0
Amortization of intangible assets	2.8	2.8
Non-GAAP gross profit	$69.3	$64.6

Reconciliation of Non-GAAP Adjusted EBITDA

($ in millions)	Q1 FY15	Q1 FY14
Reconciliation of Non-GAAP Adjusted EBITDA		
GAAP net loss	$(45.1)	$(34.2)
Interest expense / (income), net	4.6	3.7
Tax benefit	(5.8)	(8.1)
Depreciation and amortization	27.6	22.8
Stock-based compensation expense	17.8	16.0
Non-GAAP Adjusted EBITDA	$(0.9)	$0.2

	Q1 FY15	Q1 FY14
Reconciliation of Cash Flows from Operations To Non-GAAP Adjusted EBITDA		
Net cash used in operations	$(107.7)	$(97.5)
Interest expense / (income), net	4.6	3.7
Tax benefit	(5.8)	(8.1)
Changes in operating assets/liabilities	113.1	106.6
Other adjustments	(5.1)	(4.5)
Non-GAAP Adjusted EBITDA	$(0.9)	$0.2

Reconciliation of Non-GAAP Net Loss Per Share

($ in millions, except per share amounts)

Share amounts in thousands

	Q1 FY15	Q1 FY14
Reconciliation of Non-GAAP Net Loss Per Share		
GAAP net loss	$(45.1)	$(34.2)
Add back interest expense related to:		
Amortization of debt discount	3.0	2.9
Amortization of debt issuance costs	0.3	0.3
0.25% coupon	0.2	0.2
Tax effect	(0.4)	(0.7)
Non-GAAP net loss	$(42.0)	$(31.5)
GAAP Shares outstanding	37,968	38,503
Add: Dilutive effect of convertible notes	0	0
Non-GAAP Shares outstanding	37,968	38,503
GAAP net loss per share	$(1.19)	$(0.89)
Non-GAAP net loss per share	$(1.11)	$(0.82)