



Q3 2017 Earnings Conference Call

October 24, 2017

Christopher North, President and CEO

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 regarding our expected positioning for future growth, our readiness for the all-important fourth quarter and for the full year 2017, our anticipated share repurchase levels 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 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, failure to realize the anticipated benefits of our 2017 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 Adjusted EBITDA minus Capital Expenditures 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.

Q3'17 Earnings Call Agenda



- Q3'17 business review
- Platform consolidation and restructuring update
- Strategic initiatives update
- Q4 readiness



- Q3'17 financials
- Capital strategy
- Q4'17 and FY17 outlook

Q3'17 Summary

FINANCIALS

- Met or exceeded guidance on all major metrics
- On target to meet share repurchase goals
- Full year 2017 guidance – reiterating and raising

BUSINESS

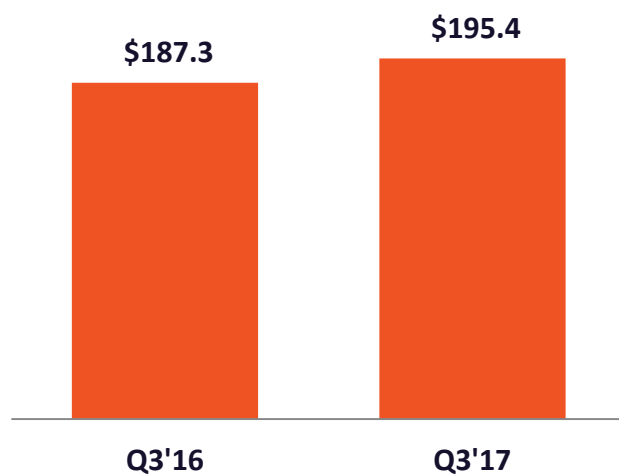
- Core Shutterfly platform performed well
- Continued progress in mobile
- SBS revenue growth continues

STRATEGIC

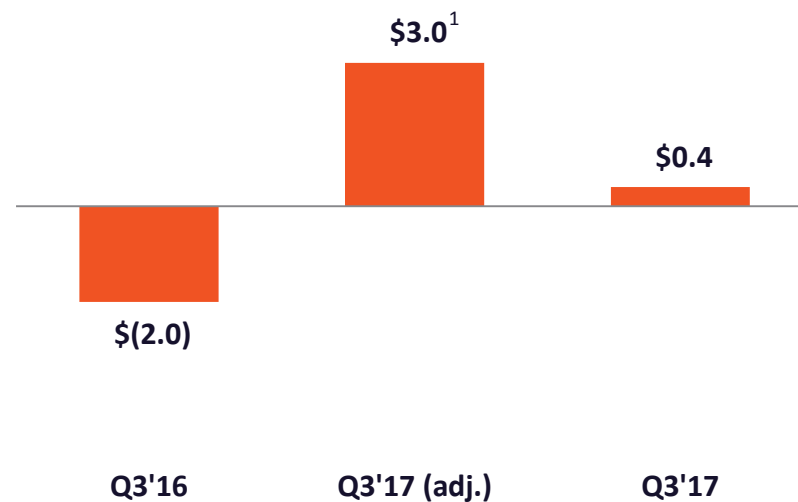
- Platform consolidation complete, and restructuring substantially complete
- Several new products launched, enhancements to the app, and simplification initiatives
- Expanded strategic relationship in SBS

Financial Summary

Total Revenues



Adj. EBITDA



¹Normalized for restructuring charges of \$3.3 million in the third quarter of 2017, of which \$2.6 million impacted Adjusted EBITDA.

Met or exceeded guidance on all major metrics.

Platform Consolidation and Restructuring

LEVERAGE THE SHUTTERFLY PLATFORM

tinyprints

as a boutique on a dedicated tab on Shutterfly.com

WEDDING PAPER DIVAS™

New Shutterfly Wedding Shop

Simplify Brand Portfolio Over 2017

Shut Down:



FavPix

Pro Gallery

Explore Strategic Alternatives:



To Deliver Significant Benefits In Q42017 And Beyond



Focus *all* of our resources on our *largest* opportunities



Single consumer platform means *all customers* benefit from *technology investments*



Significant *cost savings* allow both reinvestment and *improved bottom line*

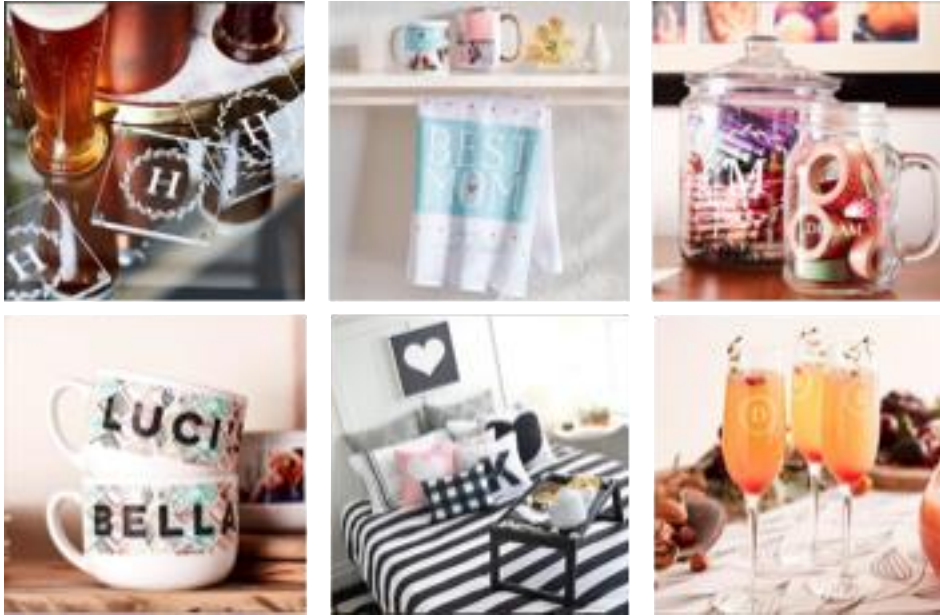
Business Review



- Increased **speed and reliability** of websites and apps
- **Simplified** creation experiences
- **Increase in photos** uploaded
- Cleaner, simplified design and **UX** on websites and app
- Machine learning tests

Good progress against strategic growth plans.

Business Review



- Range expansion in Personalized Gifts and Home Décor
- Category expansion announcement in early 2018
- 25+ products added in app
- Simplified app creation experiences
- Positive mobile tests in Q3
- Mobile mix increased 500 basis points

Good progress against strategic growth plans.

Business Review



- SBS growth on track
- New major multi-year deal in SBS
- Deliver financial objectives
- New deals with Apple, AWS, and David's Bridal

Good progress against strategic growth plans.

Ready for Holiday Season



- **Shutterfly new** gatefold cards and custom envelopes
- TinyPrints refined & upscale, including Limited Edition artists
- **Broad range** in gifts and mobile
- Improved **Cards & Stationery** purchasing experience
- **Platform** stress tested and faster
- **HP 12000** installed and tested

We are ready across the organization for the fourth quarter.

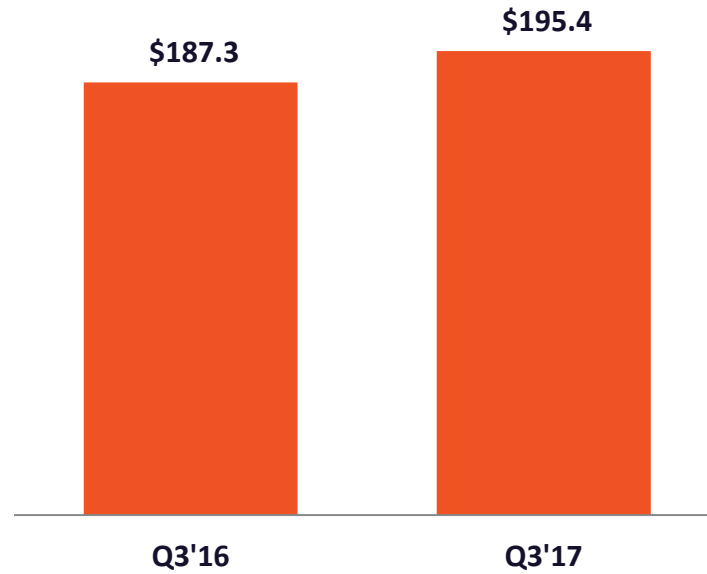
Q3'17 Financial Results Review



Mike Pope, CFO

Q3 Revenue

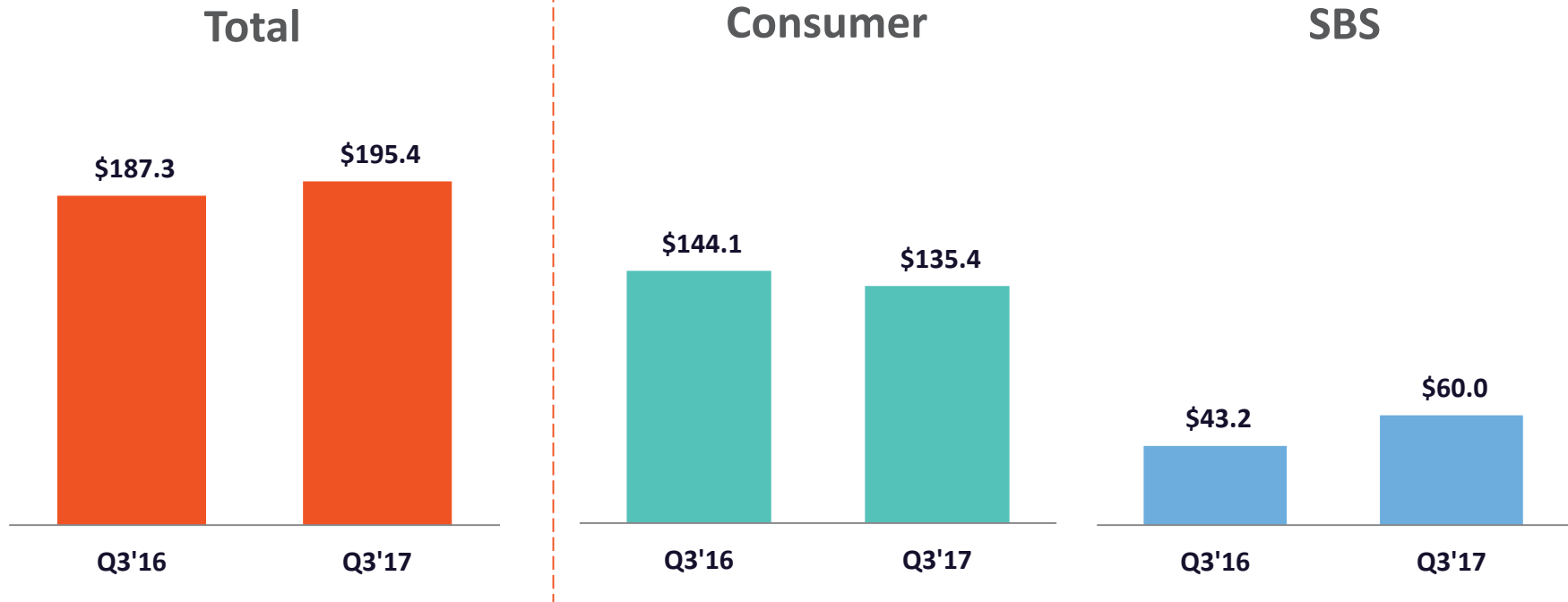
(\$ in Millions)



Q3'17 net revenues of \$195.4 million.

Q3 Revenue by Segment

(\$ in Millions)

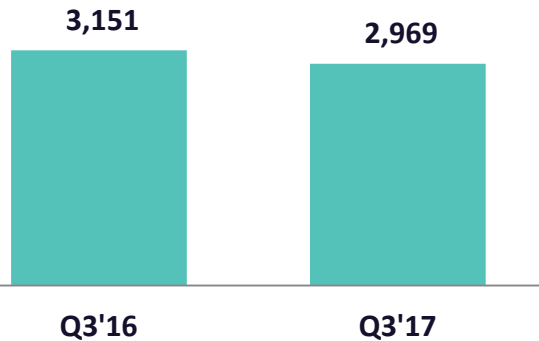


As anticipated, Consumer revenues down due to platform consolidation.

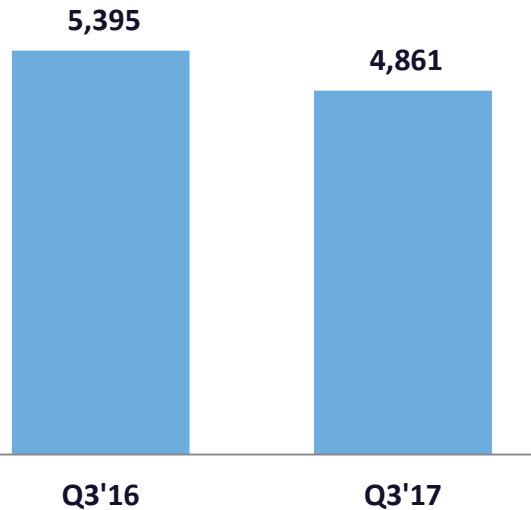
Q3 Consumer Metrics

(\$ in Millions)

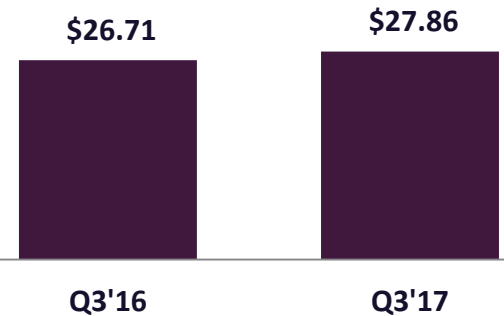
Active Customers (000's)



Orders (000's)



Average Order Value ¹



Platform consolidation impacted our customers and orders volume this quarter, while AOV increased.

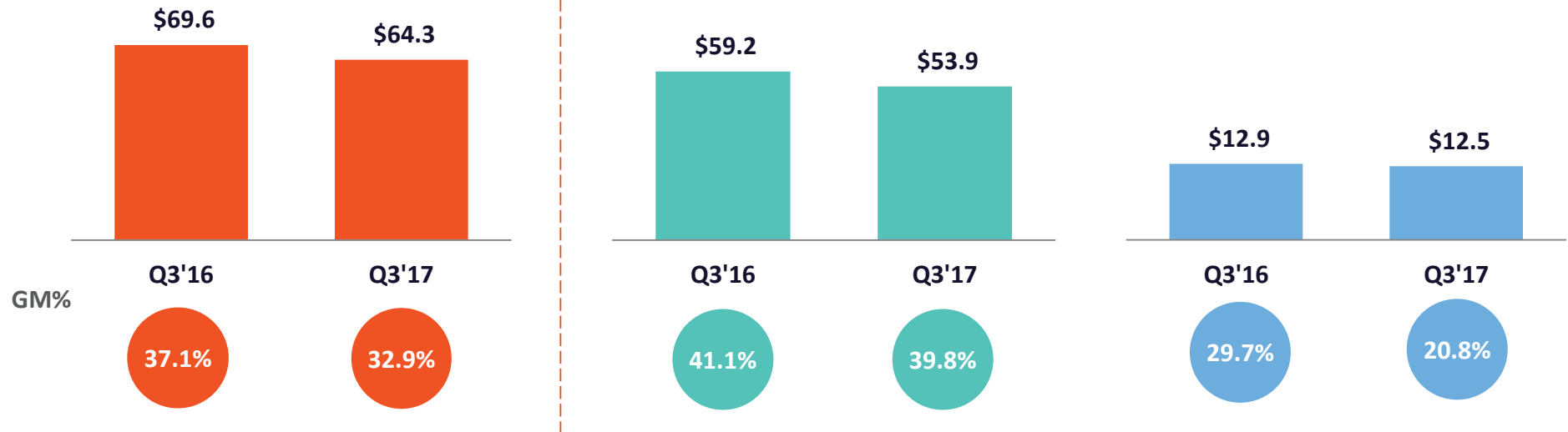
Q3 Gross Profit by Segment

(\$ in Millions)

Total

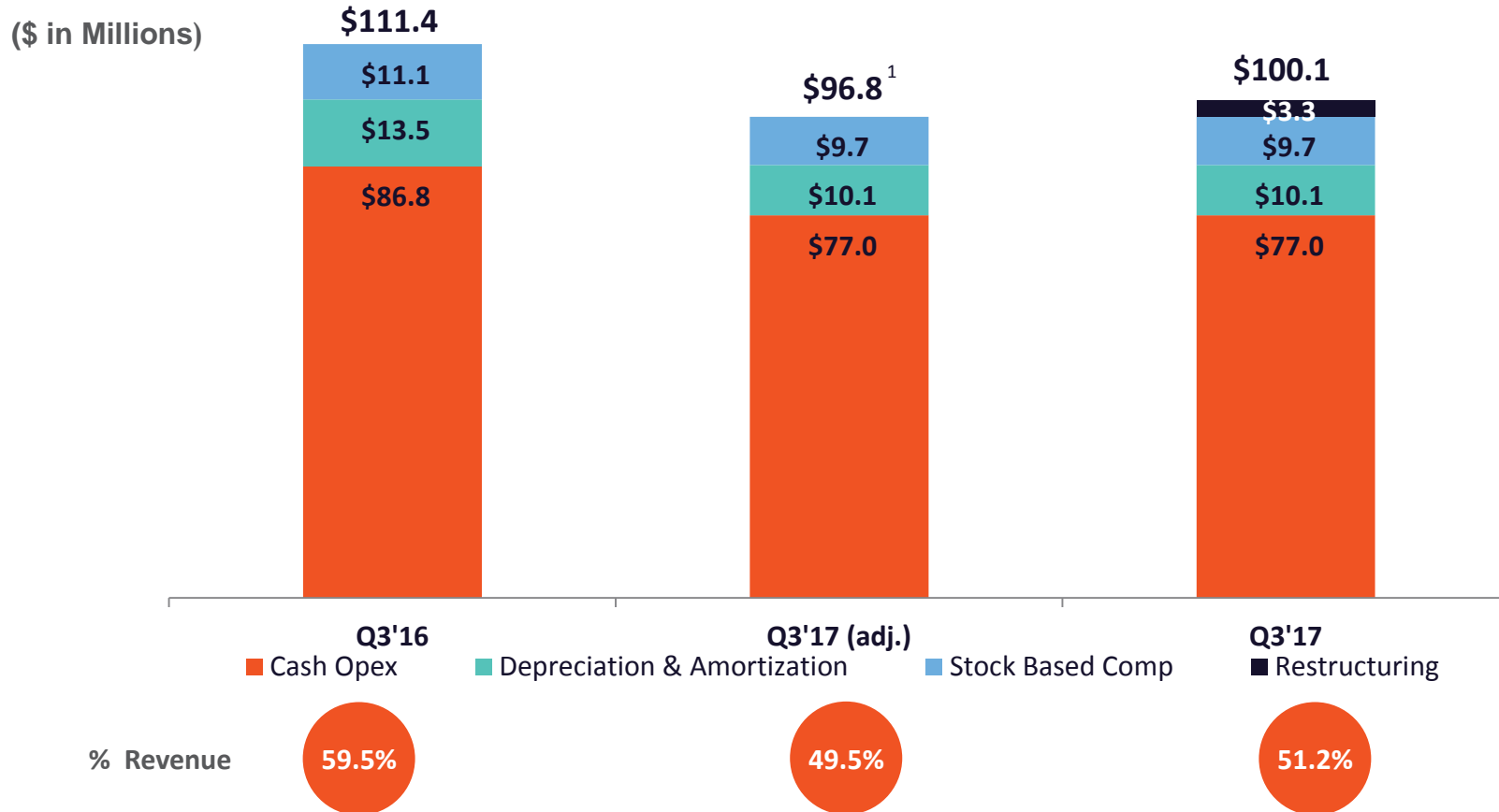
Consumer

SBS



Q3'17 overall gross margin of 32.9%; SBS gross margin decrease comes from multi-year deal, which has low gross margins during the initial ramp period period in 2017 and part of 2018.

Q3 Total Operating Expenses



Platform consolidation and restructuring driving decrease in normalized operating expenses as a percentage of revenue; strong expense control.

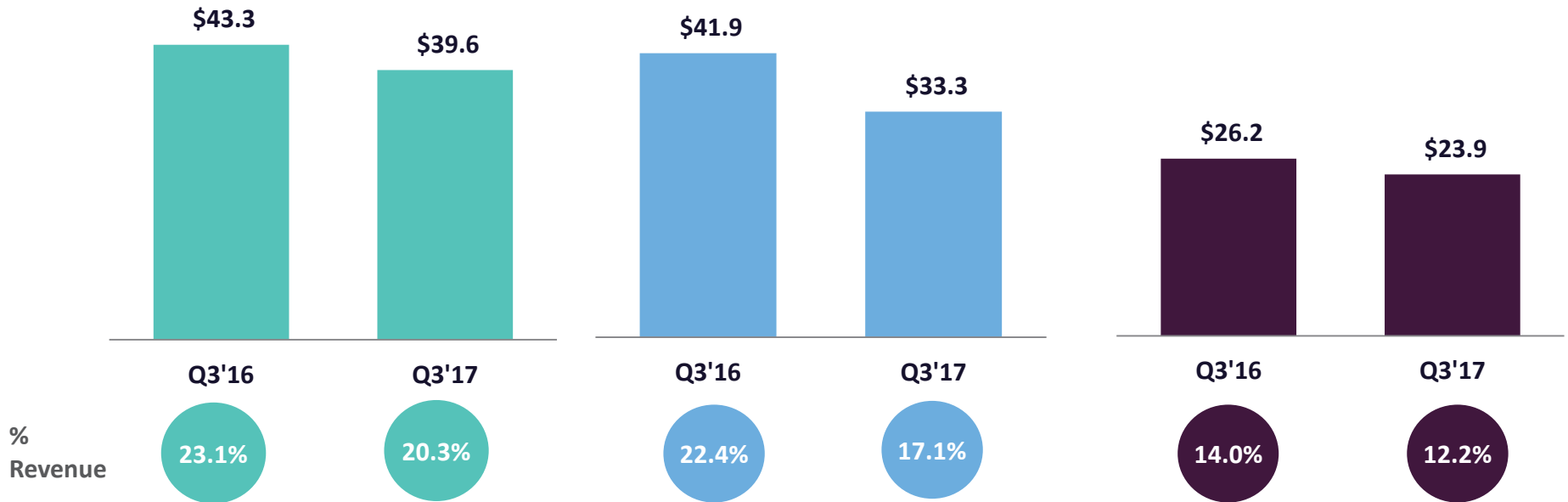
Q3 Operating Expenses by Category

(\$ in Millions)

Technology & Development

Sales & Marketing

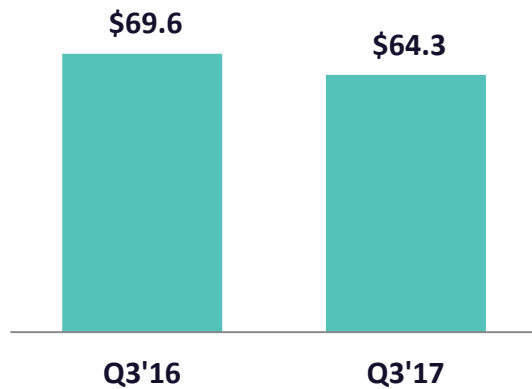
General & Administrative



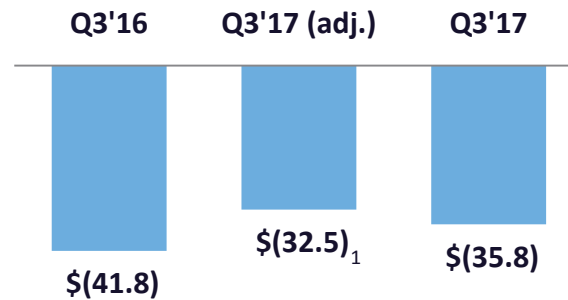
All operating expense categories decreased over prior year, with more efficient external marketing spend and headcount cost reductions.

Q3 Profitability

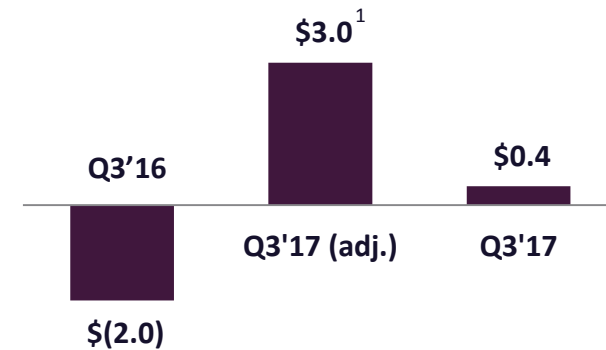
(\$ in Millions) **Gross Profit**



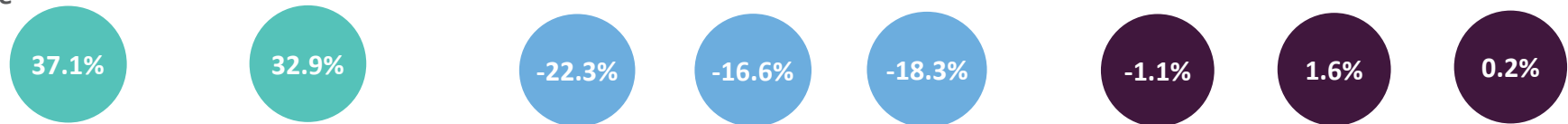
Operating Loss



Adjusted EBITDA²



%
Revenue



Q3'17 normalized Adjusted EBITDA was \$3.0 million.

¹Normalized for restructuring charges of \$3.3 million in the third quarter of 2017, of which \$2.6 million impacted Adjusted EBITDA.

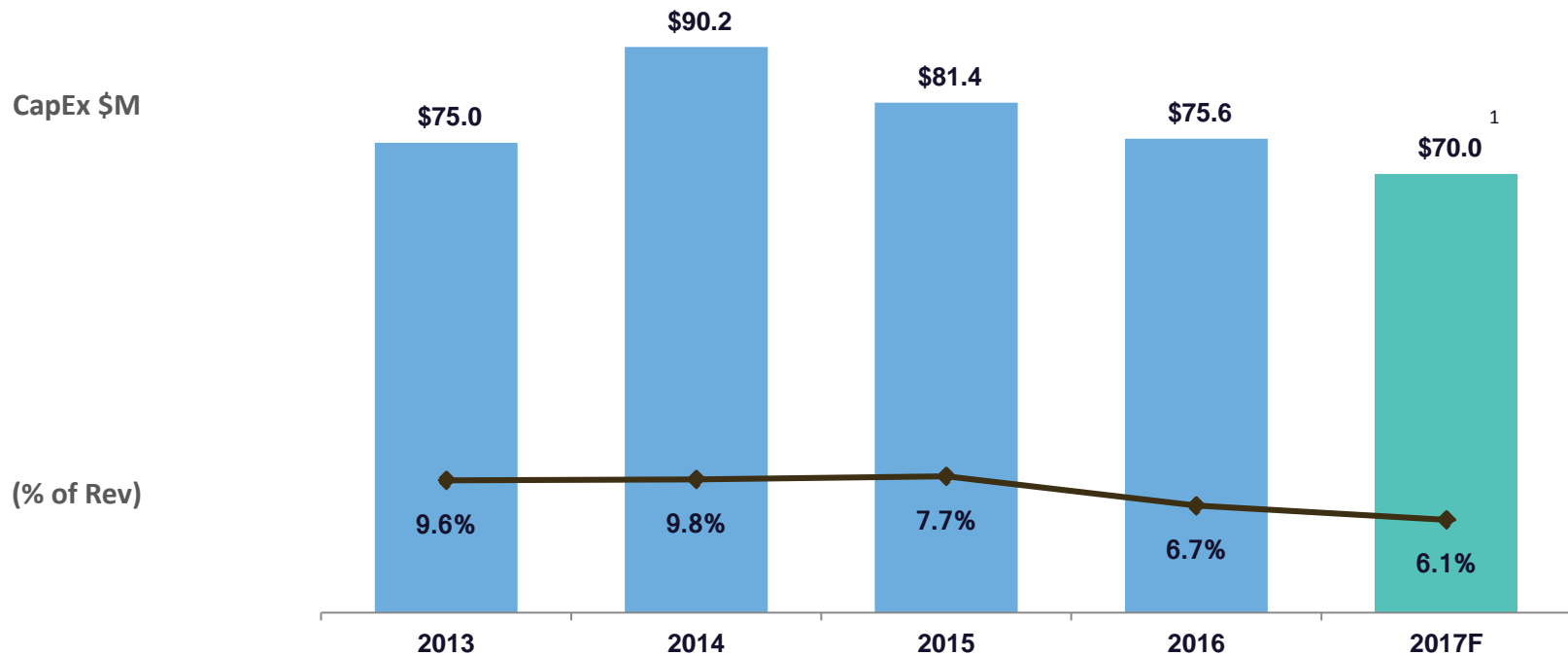
²Adjusted EBITDA is a Non-GAAP measure defined as earnings before interest, taxes, depreciation, amortization and stock-based compensation.

Q3 Profitability

(\$ in millions except per share amounts)	Q3 FY17	Q3 FY17 ¹	Q3 FY16	Change ¹ (Y/Y)
Net Revenue	\$195.4	\$195.4	\$187.3	4%
Gross Profit	\$64.3	\$64.3	\$69.6	(8%)
<i>Gross Margin</i>	32.9%	32.9%	37.1%	
Operating Loss	\$(35.8)	\$(32.5)	\$(41.8)	22%
<i>Operating Margin</i>	(18.3%)	(16.6%)	(22.3%)	
Adjusted EBITDA ²	\$0.4	\$3.0	\$(2.0)	253%
<i>Adjusted EBITDA Margin</i>	0.2%	1.6%	(1.1)%	
Loss before Taxes	\$(42.3)	\$(39.0)	\$(47.4)	18%
Benefit from Income Taxes	\$16.7	\$15.0	\$18.2	(18%)
<i>Tax Rate</i>	39.4%	38.5%	38.5%	
Net Loss	\$(25.6)	\$(24.0)	\$(29.2)	18%
Basic Shares (in millions)	32.9	32.9	33.9	(3%)
Net Loss per Share	\$(0.78)	\$(0.73)	\$(0.86)	15%

Annual Capital Expenditures

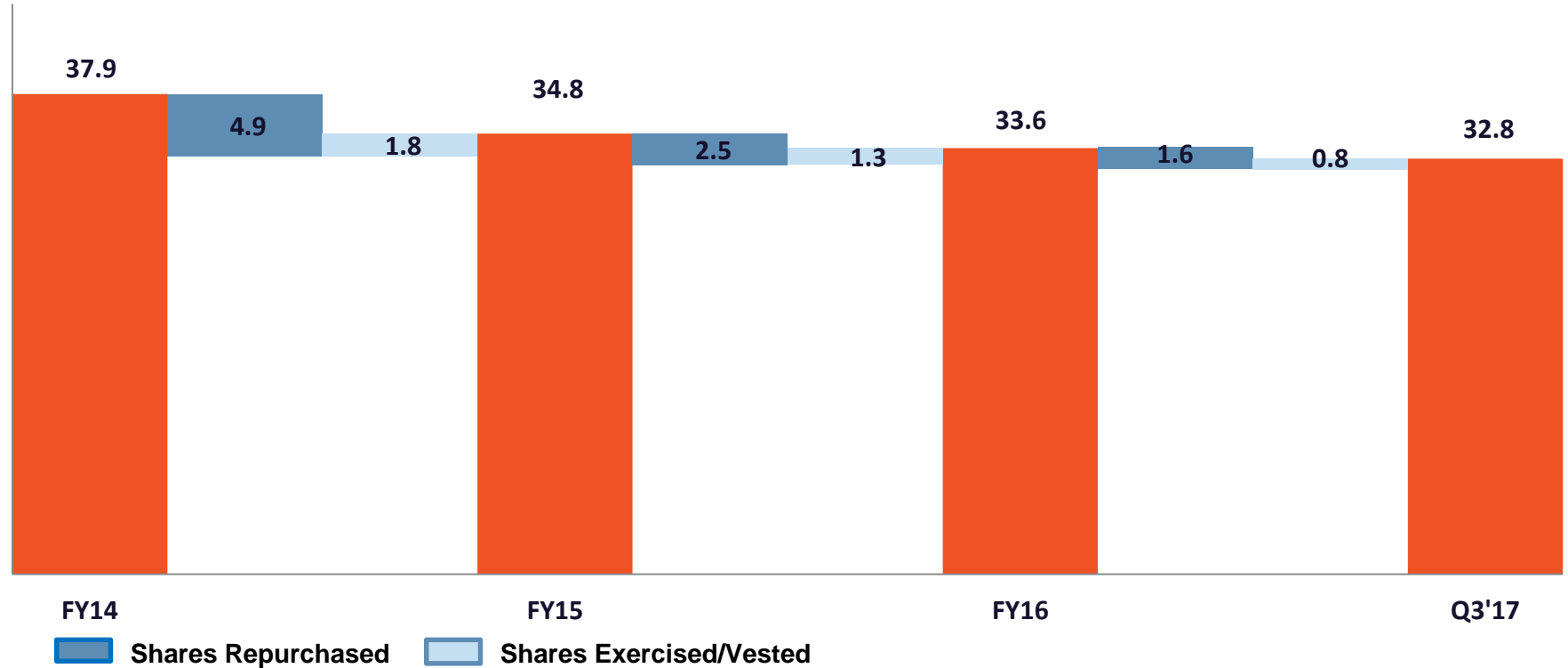
(\$ in Millions)



Q3'17 capital expenditures were \$26.8 million.

Shares Outstanding Trend

(in Millions)



In Q3'17, we repurchased a total of 632 thousand shares for \$30.0 million, bringing our year to date repurchases to just over 1.6 million shares as of September 30, 2017.

2017 Guidance¹

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

	FY17
Net Revenues	\$1,135 to \$1,165
Gross Profit Margin	48% to 49%
Operating Income	\$59.0 to \$79.0
Adjusted EBITDA ²	\$210.0 to \$230.0
Adjusted EBITDA Margin ²	18.5% to 19.7%
Effective Tax Rate	37.5%
Net Income per Share	\$0.60 to \$0.95
Diluted Shares (weighted average share in millions)	34.2
Capital Expenditures	\$70.0
Adjusted EBITDA minus Capital Expenditures	\$140.0 to \$160.0

Maintaining guidance for Net Revenues and Adjusted EBITDA, raising guidance for Operating Income and Net Income per Share, and decreasing anticipated level of Capital Expenditures.

¹Excludes restructuring charges as well as any costs related to refinancing our convertible debt and lease termination charges.



²Adjusted EBITDA is a Non-GAAP measure and is defined as earnings before interest, taxes, depreciation, amortization and stock based compensation.

Q4 FY17 Guidance¹

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

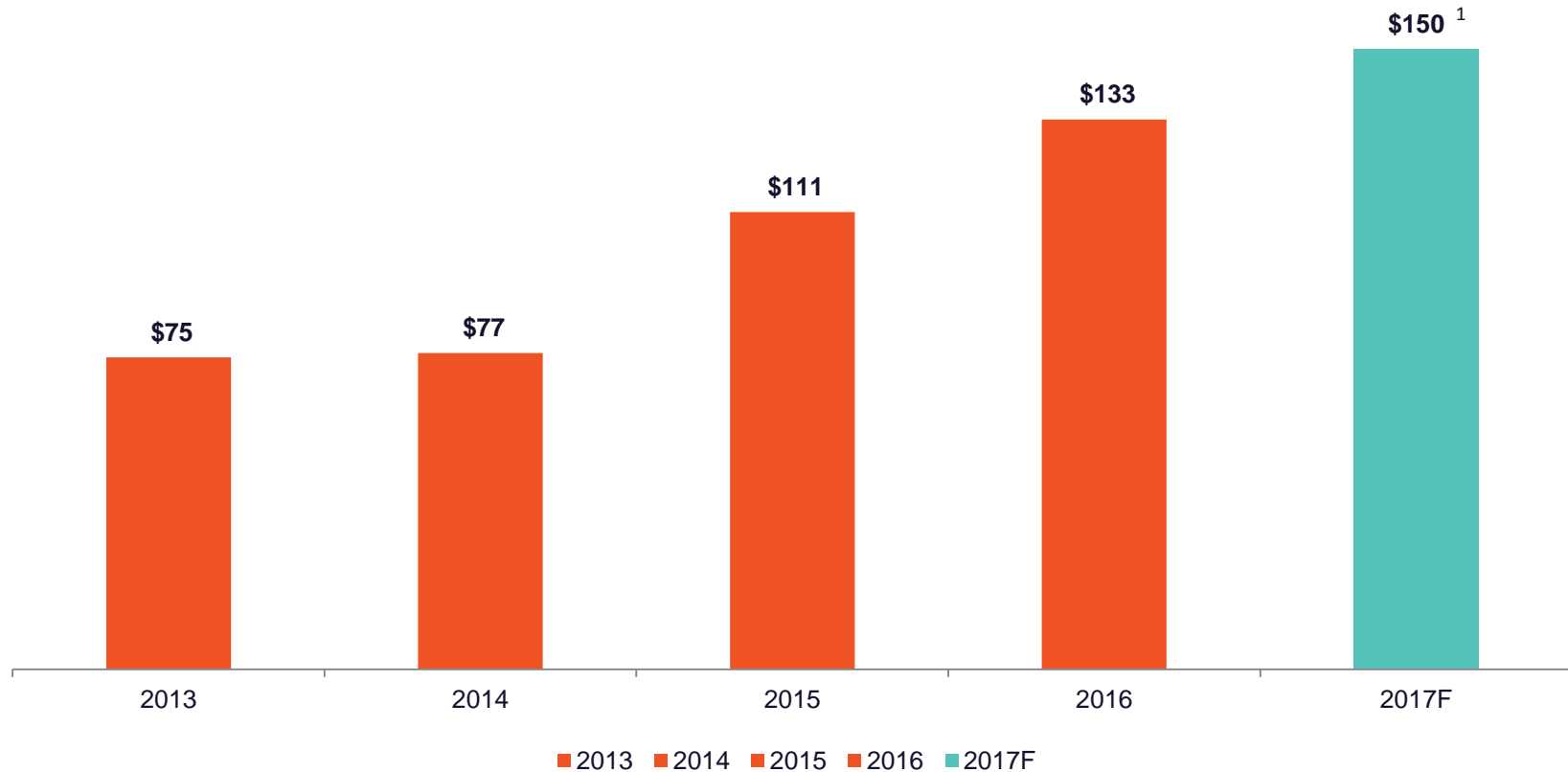
	Q4 FY17
Net Revenues	\$538.0 to \$568.0
Gross Profit Margin	58.0% to 60.0%
Operating Income	\$151.5 to \$171.5
Adjusted EBITDA ²	\$191.5 to \$211.5
Effective Tax Rate	39.0%
Net Income per Share	\$2.60 to \$3.00
Diluted Shares (weighted average share in millions)	33.4

¹Excludes expected restructuring charges.

²Adjusted EBITDA is a Non-GAAP measure and is defined as earnings before interest, taxes, depreciation, amortization and stock-based compensation.

Annual Adjusted EBITDA minus Capital Expenditures

(\$ in Millions)



FY17 Adjusted EBITDA minus Capital Expenditures expected to grow 13% YoY at the midpoint of guidance range.

Q&A

Reconciliation of Non-GAAP Adjusted EBITDA

(\$ in millions)	<u>Q3 FY17</u>	<u>Q3 FY16</u>
GAAP net loss	\$(25.6)	\$(29.2)
Interest expense / (income), net	6.5	5.6
Tax benefit	(16.7)	(18.2)
Depreciation and amortization	24.8	27.6
Stock-based compensation expense	10.7	12.2
Restructuring charges	3.3	-
Non-GAAP Adjusted EBITDA	<u>\$3.0</u>	<u>\$(2.0)</u>
Net cash used in operations	\$(21.9)	\$(4.9)
Interest expense / (income), net	6.5	5.6
Tax benefit	(16.7)	(18.2)
Changes in operating assets/liabilities	35.3	29.2
Other adjustments	(2.6)	(13.7)
Cash restructuring charges	2.4	-
Non-GAAP Adjusted EBITDA	<u>\$3.0</u>	<u>\$(2.0)</u>

Q3 Restructuring

(\$ in millions)

	<u>Q1 FY17</u>	<u>Q2 FY17</u>	<u>Q3 FY17</u>	<u>YTD Q3 FY17</u>
Restructuring charges:				
Property, equipment and intangibles	\$3.9	\$2.8	\$1.8	\$8.5
Employee costs	3.8	1.4	0.7	5.9
Inventory	1.2	0.2	-	1.4
Other costs	0.1	0.3	0.8	1.2
Total	<u>\$9.0</u>	<u>\$4.7</u>	<u>\$3.3</u>	<u>\$17.0</u>