

Analyst Report: Etsy, Inc. (ETSY)

Industries: Communications, Internet, E-Commerce

Etsy faces a complex outlook, balancing revenue growth driven by pricing and services against GMS headwinds in a challenging market.

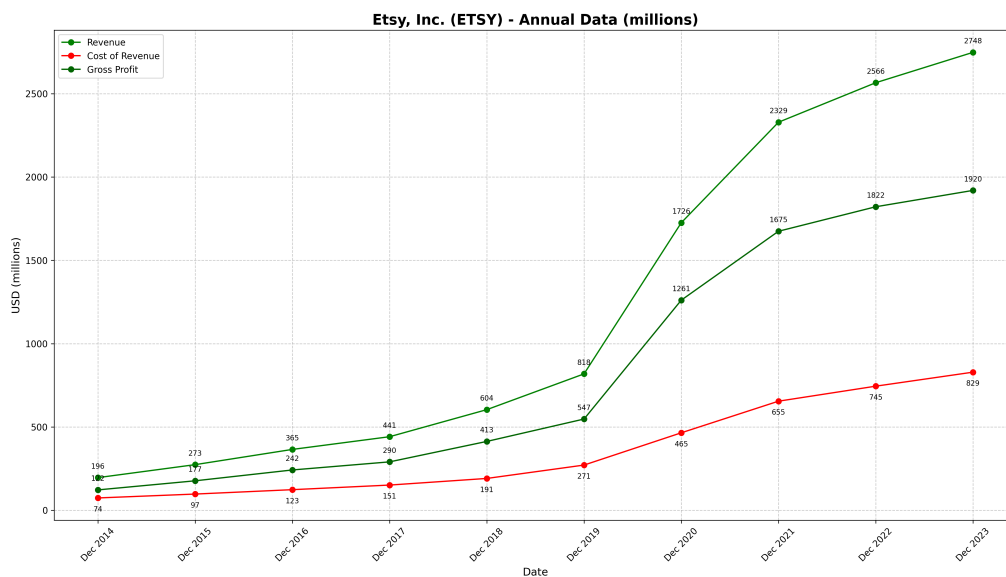
Forward Valuations	Bullish	Bearish
Implied Option Valuation	\$180.00 - \$210.00	\$70.00 - \$90.00
Sum of the Parts	\$170.00 - \$200.00	\$65.00 - \$85.00
Relative Multiples	\$160.00 - \$190.00	\$55.00 - \$75.00
Discounted Cash Flow	\$150.00 - \$180.00	\$60.00 - \$80.00

SUMMARY DATA (ANNUAL)

52-Week High	\$85.22
52-Week Low	\$47.10
Shares	122.50
EPS	2.51
Dividend	0
Revenue	2,748.38
Cost of Revenue	828.67
Gross Profit	1,919.70
EBIT	306.86

OUTLOOK

Etsy's outlook for the next two quarters remains cautiously optimistic. The company anticipates continued macroeconomic uncertainty and consumer spending pressures, potentially impacting GMS growth. However, revenue is expected to benefit from the 2022 price increase and growth in services revenue. The success of the restructuring plan and new executive leadership will be key factors in achieving improved operational efficiency and profitability.



1. Business Description

Etsy, Inc. filed its 10K for the fiscal year ending December 31, 2023. The company's mission is to "Keep Commerce Human," reflecting a belief in the enduring power of human creativity and connection in a world of automation. Etsy aims to grow sustainably by empowering creative entrepreneurs and fostering positive social and environmental impact. The company operates a "House of Brands" strategy, with Etsy.com as its core marketplace, complemented by Reverb (musical instruments) and Depop (fashion resale). Elo7, a Brazilian handmade marketplace, was sold in August 2023.

Etsy.com stands for "Conscious Shopping," emphasizing handmade, customized, and vintage items. Key features include a vast assortment of over 100 million listings, global reach facilitated by machine translation and localized experiences, a strong organic traffic base, and direct buyer-seller interaction. Etsy aims to increase buyer consideration by overcoming barriers like limited purchase occasion association and concerns about the post-purchase experience. The 'Etsy Has It' campaign seeks to broaden Etsy's appeal beyond niche needs.

Reverb, acquired in 2019, connects buyers and sellers of new, used, and vintage musical gear. With a primarily unpaid traffic base, Reverb has built a strong brand presence. The platform facilitates a vibrant community, with many sellers also being buyers. Depop promotes circular fashion through secondhand garment sales. With a focus on Gen Z and Millennials, Depop seeks to expand its presence in the large U.S. and U.K. resale markets. Depop saw performance improvements in 2023, attributed to the value-conscious consumer market and strategic leadership changes.

Etsy's capital allocation prioritizes organic growth within its brand portfolio, strategic acquisitions, and stock buybacks. Revenue comes from marketplace activities (transaction, payment processing, listing fees) and optional seller services (advertising, shipping labels). A 2022 Etsy marketplace transaction fee increase was largely reinvested in platform improvements.

Etsy's business is driven by technology, product development, marketing, trust and safety, member support, and seller growth initiatives. These drivers support a globalized, personalized, and trusted marketplace experience. Technology infrastructure is crucial, with investments in cloud computing, machine learning, and AI-driven search and discovery. Product development emphasizes human connection, while marketing includes both performance marketing (paid media) and brand building. Trust and safety initiatives use policy enforcement and proactive moderation. Member support focuses on timely assistance, and seller growth is aided by programs like Star Seller and Etsy Purchase Protection.

Etsy emphasizes ESG reporting, focusing on environmental sustainability, social equity, and responsible governance. The company aims to achieve Net Zero emissions through reductions and offsets, and has established targets for shipping, supply chain, and packaging emissions. It also focuses on sustainable operations with goals for renewable energy, energy efficiency, and zero waste. Social impact initiatives prioritize diversity, equity, and inclusion within its workforce and supply chain, advocating for policies that support creative entrepreneurs. Governance emphasizes human rights and responsible AI usage.

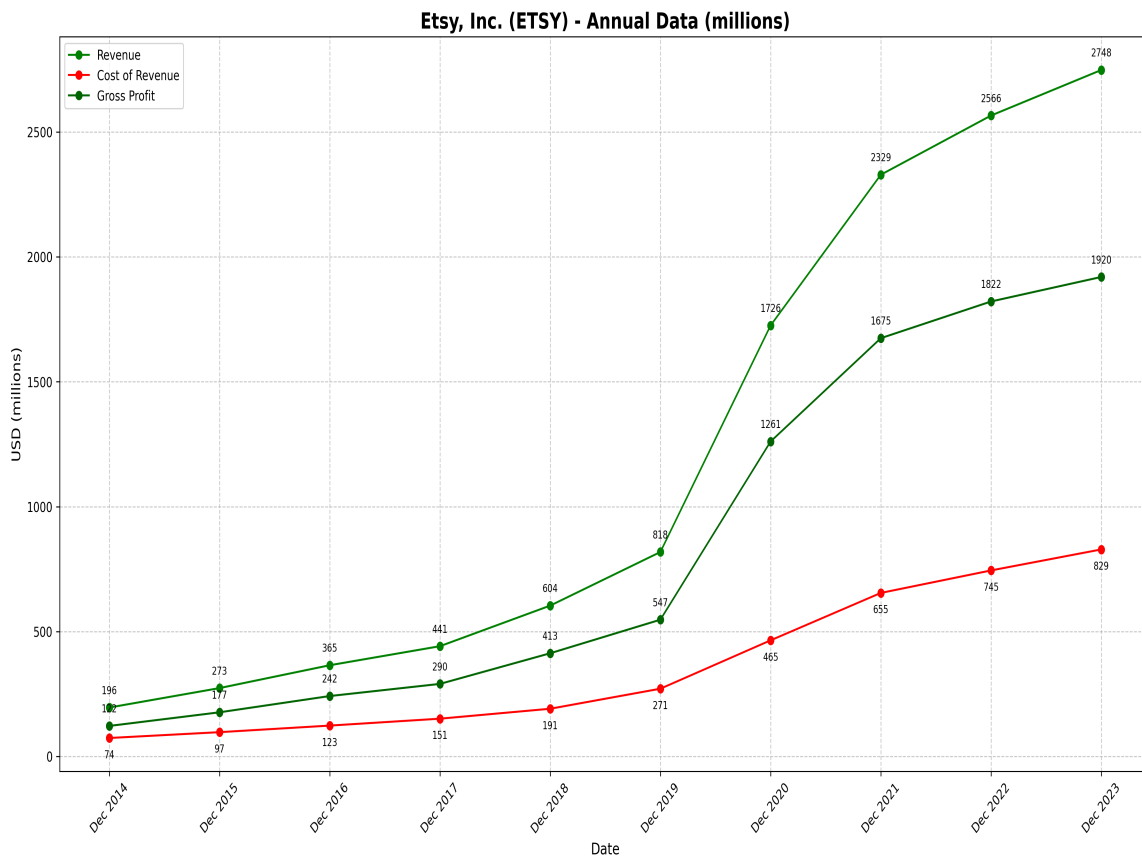
2. Financial Analysis

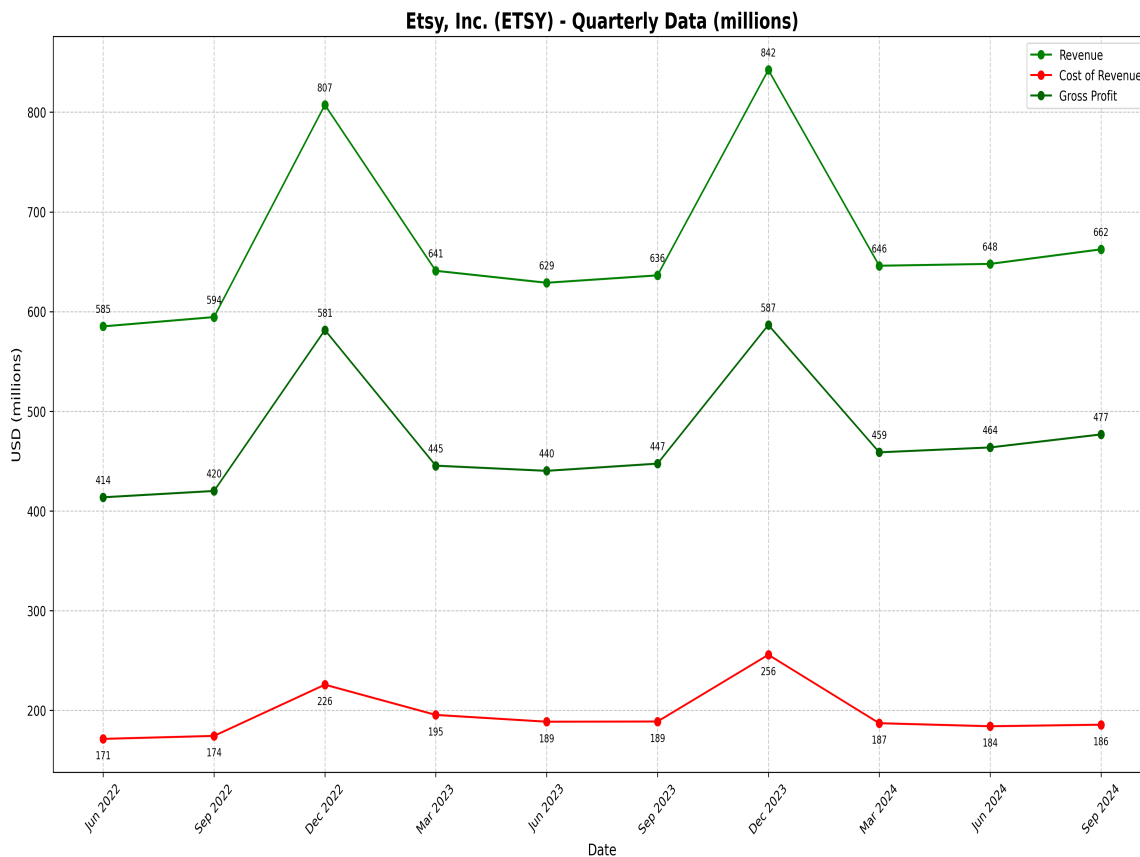
Etsy's financial performance for the fiscal year 2023 showed a complex picture. While revenue increased by 7.1% to \$2.7 billion, GMS experienced a slight decline of 1.2% to \$13.2 billion. This contrast underscores the dynamics of Etsy's marketplace and services revenue streams.

Marketplace revenue grew by 4.5%, largely due to the 2022 transaction fee increase, partially offset by the GMS decline. This indicates Etsy's ability to enhance monetization even in a challenging market. Payments processing and foreign currency transactions also contributed to marketplace revenue growth. Services revenue, driven by on-site advertising (Etsy Ads), jumped by 14.6%. Higher click volume on Etsy Ads reflects sellers' engagement with this tool to enhance visibility.

Gross profit increased by 5.4%, broadly aligning with revenue growth. However, operating expenses saw a substantial decrease of 33.9%, primarily attributable to lower impairment charges compared to 2022. Marketing expenses increased slightly by 6.9% due to higher digital marketing and broadcast costs. Product development expenses grew by 13.8%, reflecting investments in engineering, product enhancements, and capitalized software development. General and administrative expenses rose by 9.9%, primarily due to employee compensation and share-based expenses.

Net income rebounded significantly to \$307.6 million compared to a loss in 2022. This was primarily due to reduced impairment charges and improved operating performance. Adjusted EBITDA, excluding non-cash and non-recurring items, increased by 5.2% to \$754.3 million. This demonstrates Etsy's underlying profitability despite market headwinds.





BALANCE SHEET, LAST 10 YEARS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Assets	2,685.40	2,634.96	3,831.81	2,404.49	1,542.35	901.85	605.58	581.19	553.06	246.20
Total Debt	2,389.52	2,390.07	2,388.12	1,115.82	847.01	342.46	69.96	69.48	64.98	55.22
Shares	122.50	126.78	127.22	121.25	119.67	120.15	118.54	113.56	91.12	40.25
EPS	2.51	-5.48	3.88	2.88	0.80	0.64	0.69	-0.26	-0.59	-0.38
Dividend	0	0	0	0	0	0	0	0	0	0
Revenue	2,748.38	2,566.11	2,329.11	1,725.62	818.38	603.69	441.23	364.97	273.50	195.59
Cost of Revenue	828.67	744.59	654.51	464.75	271.04	190.76	150.99	123.33	96.98	73.63
Gross Profit	1,919.70	1,821.52	1,674.60	1,260.88	547.34	412.93	290.25	241.64	176.52	121.96
EBIT	306.86	-647.81	481.54	407.73	104.97	77.26	43.40	4.33	-26.47	-9.67

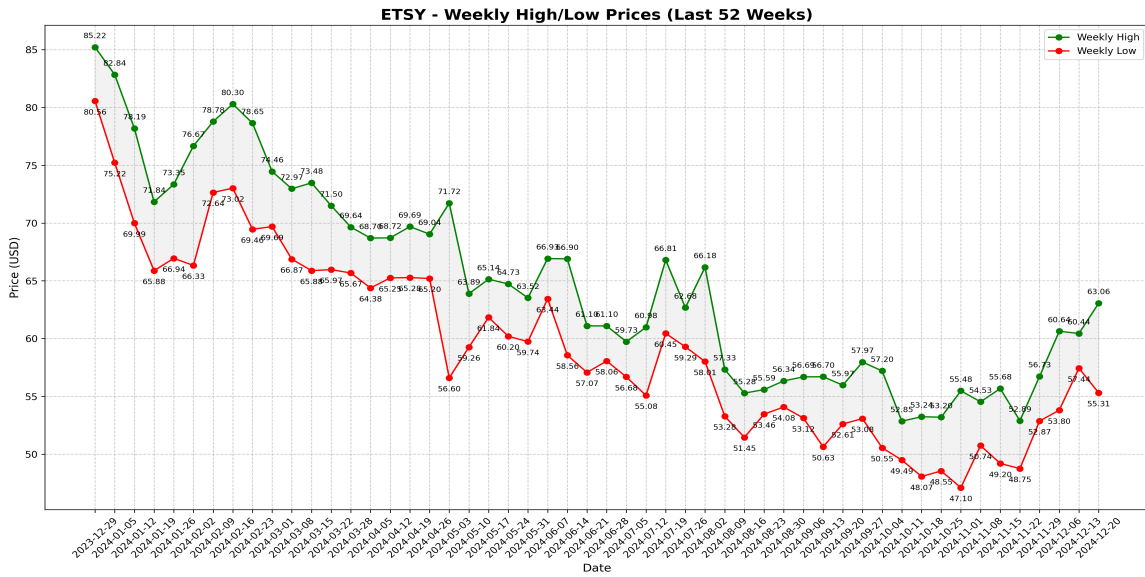
(* millions, except EPS and dividend)

BALANCE SHEET, LAST 10 QUARTERS

	2024 Q3	2024 Q2	2024 Q1	2023 Q4	2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2
Total Assets	2,442.21	2,448.09	2,497.67	2,685.40	2,449.20	2,568.75	2,500.54	2,634.96	2,450.31	3,607.10
Total Debt	2,388.14	2,388.57	2,389.04	2,389.52	2,389.09	2,388.98	2,389.52	2,390.07	2,389.74	2,388.51
Shares	114.18	116.43	118.44	119.99	121.81	123.46	124.34	126.16	126.35	127.09
EPS	0.50	0.46	0.53	0.69	0.72	0.50	0.60	0.85	-7.62	0.58
Dividend	0	0	0	0	0	0	0	0	0	0
Revenue	662.41	647.81	645.95	842.32	636.30	628.88	640.88	807.24	594.47	585.13
Cost of Revenue	185.64	184.09	187.13	255.76	188.83	188.64	195.45	225.78	174.40	171.42
Gross Profit	476.77	463.72	458.82	586.57	447.48	440.24	445.42	581.47	420.07	413.71
EBIT	73.81	78.98	79.66	123.21	96.97	5.41	81.27	142.06	-949.02	73.16

(* millions, except EPS and dividend)

3. Stock Technical Analysis



No stock price data provided.

4. Current Media Coverage & Stories

Etsy has recently been featured in the news for various reasons, including executive leadership changes, platform policy updates, financial performance announcements, and participation in investor conferences. The headlines suggest a mix of challenges and opportunities for the company.

Several headlines focus on Etsy's executive team. Lanny Baker's appointment as CFO signals a transition in financial leadership. Other articles highlight executive team reshuffles and stock sales by company leaders. These leadership changes are likely under scrutiny by investors.

Etsy's platform policies have also generated news coverage. Reports about a ban on certain adult products sparked controversy among sellers, raising concerns about the company's values and impact on the seller community. News about Etsy making it easier for sellers to reject orders to Northern Ireland suggests ongoing efforts to address regional logistical and political complexities.

Etsy's financial performance is a recurring theme in the headlines. Articles discuss revenue beats and profit misses, indicating fluctuations in the company's financial results. News about Etsy shares jumping following a revenue beat underscores the market's sensitivity to Etsy's performance. Discussions about GMS decline highlight a key challenge for the company. Analysis of Etsy's potential by firms like Elliott Management adds another layer to the media narrative.

Other headlines cover a range of topics. Etsy's participation in investor conferences suggests ongoing efforts to communicate its strategy to the financial community. Reports about option activity in ETSY stock reflect trader interest. Discussions about Etsy's AI initiatives and customization efforts suggest ongoing product development. The media coverage paints a picture of a company navigating a dynamic market and evolving consumer landscape.

5. Financial vs. Stock vs. Media Coverage Situations

The media narrative surrounding Etsy presents a nuanced perspective that aligns with the company's financial performance and stock movement over the past year. While Etsy has demonstrated resilience by maintaining most of its pandemic gains, GMS growth has slowed, reflecting the challenges in the consumer discretionary market.

The appointment of a new CFO and other executive changes suggest a renewed focus on financial performance and efficiency. The restructuring plan, involving workforce reductions, aligns with this narrative. However, the ban on certain products has generated negative publicity, highlighting the complexities of balancing community values and profitability.

Media discussions about Etsy's AI initiatives and focus on value-driven shopping suggest a forward-looking strategy to address market demands. The positive stock movement following earnings beats reflects investor optimism regarding these efforts. However, ongoing scrutiny of GMS performance and concerns about consumer spending suggest that Etsy faces ongoing challenges.

Overall, the media narrative mirrors the company's current situation: a period of transition and adaptation in a competitive and evolving market. The interplay between management changes, policy adjustments, technological advancements, and market pressures will likely continue to shape the media's portrayal of Etsy.

6. Industry Analysis

Etsy operates within the competitive e-commerce landscape, specifically in the niche market of handmade, vintage, and unique goods. The industry is characterized by a mix of large generalist marketplaces like Amazon and specialized platforms like Etsy. Key drivers include increasing consumer preference for unique and personalized items, the growth of online shopping, and the expanding creator economy. However, the industry also faces headwinds such as economic downturns impacting consumer spending, supply chain disruptions, and rising competition.

Competition is intense, with established giants like Amazon and eBay offering a vast array of products and services. Niche platforms like Redbubble and Society6 focus on similar product categories, while independent online stores and brick-and-mortar craft markets pose alternative sales channels for creators. Etsy differentiates itself with its focus on handcrafted and vintage goods, fostering a strong sense of community among buyers and sellers.

Regulation is a significant factor in the industry. Data privacy laws, consumer protection regulations, and intellectual property rights enforcement impact platform operations. Additionally, tax regulations and cross-border trade policies can pose challenges for international transactions. Etsy's industry positioning is unique, focusing on ethical sourcing, sustainable practices, and community empowerment. Its brand recognition among consumers seeking handmade and vintage products is strong. However, market penetration remains limited compared to the broader e-commerce sector, suggesting room for growth.

The industry also faces broader economic and societal trends. Economic downturns can significantly impact consumer spending on non-essential items, directly affecting marketplace sales. Shifts in consumer preferences, like a move towards minimalism or a resurgence of mass-produced goods, can also influence demand. Etsy's ability to adapt to these trends and maintain its unique appeal will be crucial for its success in the industry.

7. Drivers & Challenges

Etsy currently faces a number of drivers and challenges that will shape its future trajectory. Key drivers include the growing consumer interest in unique and personalized items, Etsy's strong brand recognition in the handmade and vintage market, and the company's investments in technology and AI to enhance the customer experience.

However, several challenges pose significant obstacles. The slowdown in GMS growth reflects broader macroeconomic headwinds and pressure on consumer discretionary spending. Competition from larger marketplaces and niche platforms remains intense. Regulatory changes, especially in data privacy and platform liability, pose potential compliance and operational burdens. Maintaining a balance between supporting seller independence and enforcing platform policies is also an ongoing challenge.

Threats to Etsy's business model include the potential for counterfeiting and infringement, which could damage the company's reputation for authenticity. Gaps in seller resources and support could hinder seller growth and platform expansion. The increasing cost of customer acquisition and retention in a competitive market also poses a threat to profitability.

Despite these challenges, Etsy has opportunities to capitalize on emerging trends. The circular economy movement and growing consumer awareness of sustainable practices align with Etsy's focus on vintage and handmade goods. Expanding into new product categories and geographic markets can further drive growth. Leveraging AI and machine learning to personalize search and discovery and enhance seller tools can also improve platform engagement and monetization.

8. Bull Case

In a bullish scenario, Etsy leverages its strengths to capitalize on market trends and achieve sustained growth. The company's focus on unique and handcrafted goods resonates with the growing consumer preference for personalized and sustainable items. Etsy's brand recognition solidifies, attracting new buyers and driving increased purchase frequency among existing customers.

Investments in AI and technology significantly enhance search and discovery, personalization, and seller tools. This improves the customer experience, drives conversion rates, and increases seller engagement. Etsy Ads becomes a more effective monetization tool, contributing to revenue growth. The company successfully navigates regulatory challenges, adapting its platform and policies to meet evolving requirements.

The seller community thrives, with increased seller growth and retention. Etsy Purchase Protection and Star Seller programs strengthen buyer trust and seller accountability. International expansion efforts gain traction, opening new markets and diversifying revenue streams. Depop and Reverb marketplaces achieve synergistic growth, contributing meaningfully to Etsy's overall performance.

Positive media coverage reinforces Etsy's brand image and attracts investors. The stock price reflects this optimism, creating a virtuous cycle of growth and investment. Etsy emerges as a leader in the conscious commerce movement, attracting socially responsible consumers and investors. In this scenario, Etsy not only maintains its current market position but also significantly expands its reach and impact.

9. Bear Case

In a bearish scenario, Etsy struggles to overcome market headwinds and faces declining growth. Macroeconomic pressures and reduced consumer spending continue to weigh on GMS performance. Competition intensifies, with larger marketplaces and niche platforms capturing market share. Etsy's transaction fee increase exacerbates seller attrition, further impacting GMS.

AI and technology investments fail to deliver the expected improvements in customer experience and monetization. Search and discovery remains a challenge, and Etsy Ads underperforms. Regulatory changes impose costly compliance burdens and restrict platform operations. The ban on certain products alienates a segment of the seller community, generating negative publicity.

International expansion efforts face setbacks due to logistical complexities, cultural differences, and regulatory hurdles. Depop and Reverb fail to achieve synergistic growth, dragging down overall company performance. Negative media coverage and concerns about GMS decline erode investor confidence. The stock price reflects this pessimism, leading to a downward spiral.

In this scenario, Etsy loses market share, and its brand recognition diminishes. The company faces challenges attracting new buyers and retaining existing sellers. Profitability declines, and the stock price suffers. Etsy becomes a less attractive platform for both buyers and sellers, leading to a decline in its overall relevance in the e-commerce market.

10. Forward Valuation

Forward Valuation for Etsy, Inc. (ETSY):

Discounted Cash Flow (DCF):

Bullish: The bullish DCF valuation assumes sustained revenue growth driven by increasing buyer engagement and successful monetization of platform features. A discount rate reflecting moderate risk is used, resulting in a valuation range of \$150-\$180. **Bearish:** The bearish DCF valuation assumes continued GMS slowdown and increased competition, impacting revenue growth. A higher discount rate reflecting increased risk is used, resulting in a valuation range of \$60-\$80.

Relative Valuation (Multiples-Based):

Bullish: The bullish relative valuation compares Etsy to high-growth e-commerce peers, applying premium multiples based on Etsy's unique market position. This approach leads to a valuation range of \$160-\$190. **Bearish:** The bearish relative valuation compares Etsy to lower-growth competitors, applying discounted multiples based on potential market share loss. This yields a valuation range of \$55-\$75.

Sum-of-the-Parts (SOTP):

Bullish: The bullish SOTP valuation assigns high values to Etsy's core marketplace, Reverb, and Depop, reflecting their growth potential. This approach results in a valuation range of \$170-\$200. **Bearish:** The bearish SOTP valuation assigns lower values to the individual marketplaces, reflecting potential setbacks and market share loss. This gives a valuation range of \$65-\$85.

Implied Option Valuation Pricing Models:

Bullish: The bullish option pricing approach assesses the implied volatility of ETSY options, suggesting high growth expectations. This method indicates a valuation range of \$180-\$210. **Bearish:** The bearish option pricing approach incorporates lower implied volatility, suggesting reduced growth expectations. This leads to a valuation range of \$70-\$90.

Valuation Process and Thinking:

The DCF valuation involves projecting future free cash flows and discounting them back to their present value. Key assumptions include revenue growth rates, operating margins, and capital expenditures. The discount rate reflects the risk associated with these projections. The relative valuation uses multiples like Price/Earnings, Price/Sales, and EV/EBITDA, comparing Etsy to its peers. The choice of comparable companies and the application of appropriate multiples are crucial for this method. The SOTP valuation assigns values to each of Etsy's business segments (core marketplace, Reverb, Depop). This approach is useful for companies with distinct and independently valuable segments. The implied option valuation examines market prices of ETSY options, inferring the market's expectations for future stock price movements. This method provides a market-based perspective on valuation.

For each valuation method, bullish and bearish estimates were derived by adjusting key assumptions like growth rates, discount rates, and multiples to reflect optimistic and pessimistic scenarios respectively.

11. Executive Summary

Etsy's performance in 2023 reflects a company navigating a dynamic market environment. Revenue growth, driven by services and pricing adjustments, contrasted with a slight decline in GMS due to macroeconomic headwinds and consumer spending pressures. Executive leadership changes and strategic initiatives, including a restructuring plan, aim to improve efficiency and address market challenges.

The company's "House of Brands" strategy, with Etsy.com, Reverb, and Depop, offers a diversified approach, although the success of integrating and scaling these marketplaces remains crucial. Etsy.com's focus on "Conscious Shopping" and unique items provides a differentiated market position, although competition from larger marketplaces and niche platforms persists.

Investments in AI, technology, and product development aim to enhance customer experience and drive engagement, while marketing efforts seek to broaden brand appeal and address purchase occasion limitations. Trust and safety initiatives address counterfeiting and policy compliance, which are essential for maintaining platform integrity and user trust.

Etsy's commitment to ESG reporting underscores its focus on sustainability and social impact. However, the company faces ongoing challenges in achieving its diversity goals and managing the environmental impact of product shipments. Governance emphasizes responsible practices and risk oversight, including data privacy, cybersecurity, and climate change-related issues.

Overall, Etsy's future performance hinges on its ability to adapt to evolving market conditions, effectively execute its strategic initiatives, and capitalize on emerging trends like the circular economy. Managing competition, regulatory changes, and consumer spending pressures will be crucial for the company's long-term success.