March 13, 2017

To the Board of Directors of Etsy, Inc.
c/o Mr. Chad Dickerson
Chairman of the Board and Chief Executive Officer
Etsy, Inc.
117 Adams Street
Brooklyn, NY 11201

Dear Board members,

black-and-white Capital is a significant shareholder of Etsy (owning approximately 1.5 million shares) and is a strong supporter of its business. We believe Etsy is the premier marketplace for unique handmade goods. We also admire the Company's goal of creating an "Etsy Economy", which supports an entire ecosystem of creative entrepreneurs pursuing their passions while providing consumers access to goods that they simply cannot find anywhere else. We are also proud of the fact that nearly 90% of Etsy sellers are women.

Etsy is the beneficiary of a few powerful secular trends, an increasing percentage of commerce shifting from brick and mortar stores to online marketplaces and a trend for consumers, especially millennials, to purchase more authentic goods.

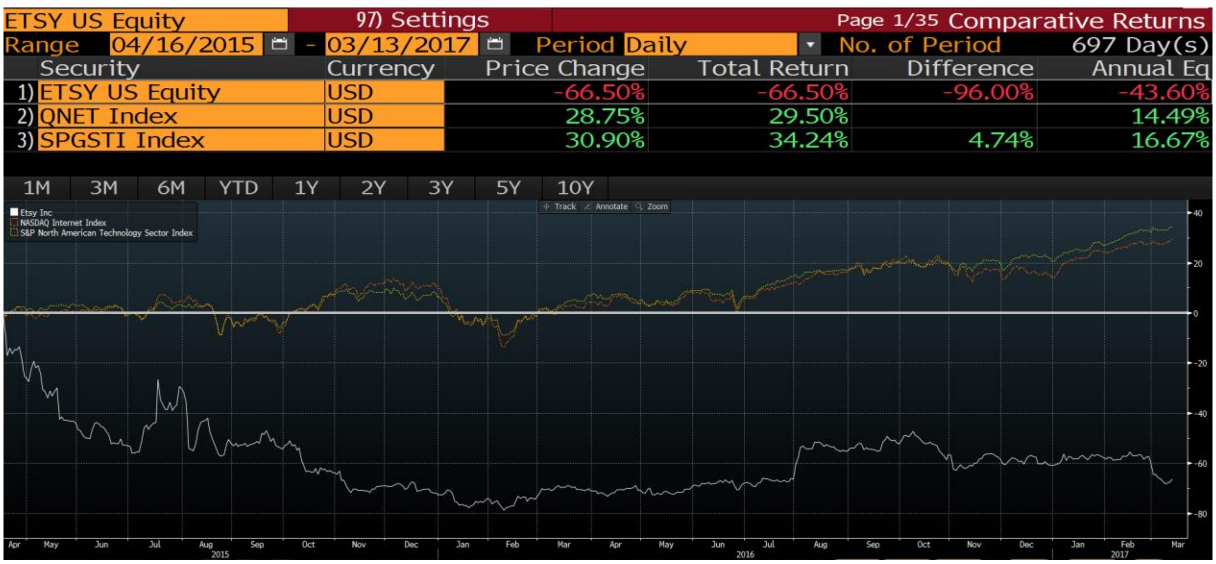
Unfortunately, we believe the Company's message to investors has been poorly constructed combined with several execution/corporate governance issues that have left investors without a clear understanding of how the management will take advantage of this incredible opportunity. According to a study referenced in the Company's 10-K filing, eMarketer estimated that worldwide retail ecommerce sales grew ~33% year-over-year ("y-o-y") in 2016 (from $1.5T to $2T). However, Etsy's gross merchandise sales ("GMS") grew less than 20% over that same period, with currency neutral y-o-y GMS growth decelerating to only 18% in Q4 2016. The Company's growth rate is particularly disappointing when put in context with its relatively small revenue base. Etsy's global GMS for 2016 was less than $3B versus a creative products market that is estimated to equal $44B in the U.S. alone, and is likely more than double that figure globally.

We have delivered this letter in the hope of beginning a more constructive private dialogue directly with the Board of Directors ("Board"). Prior to sending this letter, we have made several attempts to have similar conversations with senior management at Etsy, however, those requests have largely been ignored. Therefore, given our significant concerns discussed below, combined with the recent performance of Etsy's stock, as well as the CFO transition, we have decided to raise this conversation and put our concerns in writing for the Board to review.

Value Destruction since IPO:

It should be abundantly clear to the Board that Etsy's stock price has performed abysmally since its April 2015 IPO. Etsy's shares are trading 37% below their IPO price of $16.00 and are down nearly 70% from their all-time closing price high. This stock performance is even more disappointing when considered on a relative basis compared to both the NASDAQ Internet Index and the S&P North American Technology Sector Indexes – each of which is up 30% and 34%, respectively, over the same period. Even the much-beleaguered retail sector, as represented by the Russel 3000 Diversified Retail Index, achieved a 27% gain over that period.

Etsy vs. Technology Indices:



ETSY US Equity | 97) Settings | Page 1/35 Comparative Returns

Range 04/16/2015 - 03/13/2017 | Period Daily | No. of Period 697 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	ETSY US Equity	USD	-66.50%	-66.50%	-96.00%	-43.60%
2)	QNET Index	USD	28.75%	29.50%		14.49%
3)	SPGSTI Index	USD	30.90%	34.24%	4.74%	16.67%

Etsy vs. Retail Index (both offline and online):

ETSY US Equity | 97) Settings | Page 1/35 Comparative Returns

Range 04/16/2015 - 03/13/2017 | Period Daily | No. of Period 697 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	ETSY US Equity	USD	-66.50%	-66.50%	-93.32%	-43.60%
2)	RGUSDDR Index	USD	23.90%	26.82%		13.25%
3)						

In addition to the stock's poor price performance, the equity's current valuation captures the lack of confidence investors have in management's vision and ability to execute. Public market investors have overlooked Etsy's potential for future revenue growth and margin improvement. Etsy is currently trading at <2x Enterprise Value / 2018 consensus revenue vs. marketplace peers(1) trading at 5x and its own historical forward year revenue multiple of ~3x. Similarly, on an EBITDA basis, Etsy is trading at only 9x 2018 consensus estimates vs. the same peers at 17x. Looking at these same revenue and EBITDA multiples compared to a different set of similarly-sized internet peers(2), Etsy is trading at a 35% and 55% discount on a revenue and EBITDA basis, respectively. This discount appears even more severe when one accounts for the fact that Etsy's consensus 2018 estimates are well below the midpoint of management's current guidance range.

Cost Discipline:

We are also troubled by what appears to be a lack of cost discipline at the Company. It is clear to us, as it should be to the Board, that the Company's bloated general and administrative ("G&A") expenses must be addressed. While these expenses seemed inflated last year, we are even more concerned that they are expected to increase even further in 2017. Etsy will be turning 12 years old this summer and will enter its third year as a publicly traded company. At this point in a company's lifecycle, investors expect to see Adjusted EBITDA growth, both on a percent of revenue and dollar basis. The Company's 2017 guidance shows that it will deliver neither, which has been a large contributing factor in the stock's 17% decline since this guidance was originally delivered.

Etsy's 2016 G&A expenses totaled $86 million or 24% of total revenue. This is dramatically higher than marketplace peers MELI and EBAY, whose G&A as a percentage of revenue falls in the 9-10% range. Even if we look back historically to when these two peer companies had a similar revenue base to Etsy's current $365mm, their G&A expenses on a dollar basis were only ~$45-$65mm vs. Etsy's $86mm last year. *Stated differently, Etsy is spending $20-$40mm more each year on G&A expenses than EBAY and MELI did to support a similar level of revenue.* There is no justification for these excessive G&A expenses.

Management's guidance for 2017 suggests this overspending is poised to get even worse. As you can see from the chart below, the midpoint of the current 2017 guidance range implies Etsy will not grow Adjusted EBITDA dollars on a year-over-year basis, despite 21% y-o-y revenue growth or ~$80mm incremental dollars. Thought of another way, ETSY's non-GAAP operating expenses are expected to increase 30% faster than its revenue in 2017.

While we understand that the Board may point to incremental expenses associated with a full year of the Blackbird team integration and incremental brand marketing expenses (which we support), this type of y-o-y increase in overall operating expenses is unacceptable for a company of Etsy's size, growth rate and maturity.

$ in Millions

	2016 Actual	Midpoint of 2017 Guidance		Y-o-Y $ Growth	Comments
		%	$	$	
GMS	$2,842	16.0%	$3,297	$455	*Continues to be below the overall e-commerce growth rate*
Revenue	$365	21.0%	$442	$77	
% yoy growth					
Gross Margin	66.2%	66.2%			*Assumed to be flat vs. 2016*
Gross Profit	$242		$292	$51	
(-) Non-GAAP Opex	**($184)**	**27.4%**	**($235)**	**$50**	
Adjusted EBITDA	$57		$57	$0	***Virtually zero EBITDA Growth y-o-y***
EBITDA MARGIN	15.7%		13.0%		
YoY Incremental EBITDA Margin			0.4%		

Notes:
(1) Blue shading indicates midpoint of management guidance provided in the Q4 2016 Earnings Release

Executive Hiring:

A strong CFO is critical for any company. However, the importance of this role is even greater for Etsy where investor confidence, strategic execution and financial discipline need to be reestablished. Mrs. Salen announced her intentions to leave the company on November 1, 2016. However, we are confident the Board was aware of this decision well in advance of that public announcement. Over four months have passed since the Q3 2016 earnings release and neither management, nor the Board, has provided a meaningful update to shareholders on how this search has progressed. In fact, the most recent, brief comment on Etsy's earnings conference call implied that the CFO search period would extend beyond the initial five-month timeframe. We hope Etsy will hire a talented CFO at this critical juncture and are happy to assist the Board in any way possible. Our firm, which has collectively nearly 50 years of experience investing within the technology/internet sector, has a network of CFO contacts in addition to other executives and Board members that can also contribute in this matter.

Etsy has also added members to its senior management team in the past year, with some of those additions coming into newly created positions. To better understand how the increase in G&A expenses and equity dilution for existing shareholders associated with their hiring is justified, we would like to discuss how these new team members are contributing to Etsy and what specific goals the Board believes are furthered by their hiring.

Communication with the Investment Community:

While a fair portion of Etsy's poor shareholder return since its IPO has been based on disappointing execution, in our opinion the Company also suffers from a lack of regular communication with shareholders, both existing and potential. Since initiating our research last year, we have made multiple attempts to schedule time with senior management, and other business heads, to help us better understand the Company's fundamentals. The sporadic and untimely responses we have received to these requests have resulted in limited access to Investor Relations ("IR") and virtually no access to senior management.

More than several weeks in advance of a recent trip to New York, we reached out to IR to schedule meetings with management and to tour the new headquarter facilities. The IR team was unwilling to help coordinate these meetings and ultimately said a discussion would not be possible during our visit. Furthering our concern, IR said that many other large investors have requested similar types of meetings recently and have all been turned away.

While we are comforted to learn that black-and-white Capital is not being discriminated against, this meager effort to accommodate investors is exactly the type of approach that often leads to investor discontent and ultimately a depressed stock price. Combined with poor fundamental execution, a distant relationship with investors (both existing and new) can exacerbate stock underperformance. Meeting with executives is a key part of many active managers' due diligence process and a necessary component of any good shareholder relations program. It's our understanding that this lack of access has alienated some existing shareholders, while not allowing potential shareholders to complete the required research necessary to get comfortable making a new investment.

Without a permanent CFO, and long-term guidance that is clearly not viewed by investors as credible, Etsy should be doing everything in its power to put investors' minds at ease. We hope going forward, the Board will encourage management to take a much more shareholder friendly approach to corporate access and develop a program for encouraging meaningful dialogue with Etsy's shareholders.

Corporate Governance Issues and Misaligned Executive Compensation Practices

We believe that shareholder value can best be created when a Company has best-in-class corporate governance and where executive compensation is clearly aligned with performance. Unfortunately, Etsy's corporate governance also raises significant concerns. These concerns include:

- A classified Board
- Super-majority requirements to amend Charter & Bylaws provisions

- Inability of shareholders to call special meetings or an act by written consent
- Lack of separation of Chairman and CEO positions
- CEO pay at outsized multiple compared to its peers
- Failure to align compensation with performance
- Implementation of significant charter restrictions prior to IPO that limit Board accountability
- Excessive number of shares available for future issuance under the Company's 2015 Equity Incentive Plan
- Lack of minimum ownership requests for Board members and senior management

We believe these corporate governance policies have also contributed to the Company's poor stock performance and must be addressed by the Board.

Strategic Alternatives:

Given the poor share price performance since the time of the IPO, the Company's disappointing sales growth and operational execution, and the substantial discount Etsy is trading at relative to its peers(1) (2), we feel now is an appropriate time for the Board to begin evaluating any and all strategic alternatives for creating shareholder value.

We hope to engage the Board in an active dialogue regarding our views on strategic alternatives that we believe would maximize value for the benefit of all shareholders. Etsy is a strategic asset with powerful network effects. There is a dedicated group of nearly 2 million active sellers creating unique goods that many other marketplaces would find very attractive. Etsy's Brooklyn headquarters would also likely be viewed as a strategic asset for many foreign companies looking to expand their operations in the US.

Other Topics for Discussion:

In effort for brevity, we thought it best to quickly list a few other topics that we would like to discuss directly with the Board:

- Adding independent board members with technology and online market place experience
- Ways to improve buyer frequency and GMS per buyer
- Additional disclosure regarding the Seller Services revenue line item
- Market confusion around 2018 guidance, which assumes revenue will reaccelerate next year
- Capital allocation
- Lack of insider buying, both at the Board and executive level

Collaborative Dialogue:

We continue to be excited about Etsy's long-term growth trajectory and margin potential. It is our hope that this letter will be the first step in a much broader and meaningful strategic conversation with senior management and the Board. We believe our substantial investment experience in the technology sector can be very helpful, allowing us to aid the Company in crafting a better story that will resonate with the broader market, improving financial disclosures, recruitment of a CFO and additional Board members, increased cost discipline, and evaluation of strategic alternatives.

We have sent this letter privately as we are hopeful that when the Board considers the serious concerns we have raised in a constructive manner, that the Board will be open to a direct dialogue. We are happy to discuss our concerns and the meaningful ways they can be addressed directly with the Board. Accordingly, we hereby request the opportunity to present our view in person at your next Board meeting. As significant shareholders our interests are clearly aligned with the Board in creating value for the benefit of all shareholders.

We look forward to hearing from you soon.

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Footnotes:

(1) Marketplace peer set includes: EBAY, AMZN, BABA, and MELI

(2) Internet peer set includes: YELP, TRUE, P, and GRUB