

# black-and-white Capital LP

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April 3, 2017

To the Board of Directors of Etsy, Inc.  
c/o Mr. Fred Wilson  
Lead Independent Director  
Etsy, Inc.  
117 Adams Street  
Brooklyn, NY 11201

Dear Board members,

We would like to take this opportunity to both thank Fred Wilson and Chad Dickerson for hosting us at Etsy's offices on March 30th, as well as to update the Board on our perspective. Fred and Chad were extremely gracious with their time, open-minded to our perspectives and fully engaged. We were encouraged to offer our opinion for the best path forward regarding each topic discussed and we were told our feedback/suggestions were greatly appreciated. From our vantage point and the point of view from shareholders generally, Etsy's management has often appeared 'tone deaf' to investors' needs. We were comforted to hear that the Board (as expressed by both Chad and Fred) is not only open to suggestions but is looking for ways to improve Etsy's process, discipline and long-term value. Fred, we'd also like to thank you directly for the additional time you made available to us at the end of the meeting – your frank, private opinion on a range of topics was greatly appreciated.

Our belief in Etsy's mandate as a community for craft creators and artisans is quite firm but we balance that altruistic vision with a need to create stakeholder value for all participants. Etsy's responsibility is not just to its community of buyers and sellers, but to its investors as well. We firmly believe the Board and management need to be held accountable for the strategic decisions made and actual operating performance. Our desire is to help Etsy create value over the long-term through the execution against tangible benchmarks. We steadfastly believe that accountability is paramount.

The topics we discussed in our meeting and the concerns we raised in our prior letter are very tangible Board-level issues. With the annual shareholder meeting approaching in June, we believe a reasonable grace period ahead of that meeting is appropriate for us to hear the Board's responses to each of the items listed below. It is our preference that we can keep these conversations private, however, we expect to meet with the Board in early May and receive a detailed update on each of these items. We also believe the Board should consider appropriate public disclosure on these topics in its first quarter earnings release.

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Topics for further discussion:

- Gross Merchandise Sales (“GMS”) Growth Deceleration:
  - We would like a detailed understanding of how the incremental investments in R&D and Marketing will drive acceptable levels of accelerated growth in GMS in 2018 and beyond
  - We would like a detailed analysis of why GMS growth has decelerated for seven of the last eight quarters on a year-over-year basis – to below the rate of category and e-commerce growth (as referenced in our prior letter)

As background, we fail to subscribe to Chad’s explanation in our meeting that GMS has decelerated due to a lack of brand advertising. Etsy ranks as the 50<sup>th</sup> most visited site in the U.S. and the 4<sup>th</sup> most visited general merchandise shopping website in the U.S. according to SimilarWeb. Etsy already has critical mass and mindshare amongst active internet shoppers as traffic to Etsy’s website exceeds that of Target and many other major retailers with far greater advertising budgets. Furthermore, we firmly believe that Etsy’s website traffic ranking suggests the fundamental problem in Etsy’s lack of outsized growth in GMS is a function of weak transaction conversion of visiting buyers, as opposed to a lack of buyers (as was suggested by Chad during our meeting).

To help illustrate this point, below we have included a chart showing the bounce rate of ETSY compared to other large global ecommerce websites:

<u>Website</u>	<u>Bounce Rate (1) (2)</u>
<b>ETSY</b>	<b>43%</b>
JD.com	21%
Taobao	26%
NastyGal	27%
Tmall	29%
Gilt	32%
EBAY	35%
JustFab	36%
Zulily	37%
AMZN	38%
Overstock	38%
Macys	39%

**Notes:**

(1) The Bounce Rate metric shows the percentage of visitors to the selected website who navigate away from the site after viewing only one page, during the selected timeframe.

(2) Source: www.SimilarWeb.com as of 3/30/17

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- Timeframe to separate the Chairman of the Board and CEO

For reference, Fred assured us that the Board was sufficiently balanced and capable in each person's responsibilities and now is not an appropriate time to separate these two crucial roles. We disagree. Chad's responsibilities in managing the company, a relatively new COO, a new CFO (to be hired) as well as a relatively new internal organization structure suggests he already has a very full plate. Adding an independent Chairman, focused on leading the Board and protecting shareholder interests, would be extremely beneficial to both management and public shareholders.

- Explanation for how, and when, Etsy plans to reduce G&A expense down to the long-term model of 10% of revenues
  - This 10% target was indicated to us by Jennifer Beugelmans during the time of our initial diligence last fall and is also in line with other large internet marketplace peers
- An open review of additional candidates for Board members who would be suitable to advise and challenge Etsy's management on strategic technical decisions

For reference, we discussed with Chad and Fred that Etsy's Board lacks enough members with computer science backgrounds who can help steer the company in the proper direction (addressing issues such as conversion). Chad and Fred said they were open to hearing suggestions on additional board members and invited us to propose candidates. I think we can all agree that different skill sets are required in Board members at different stages of a company's existence for it to successfully compete.

- Review of guidance processes and financial disclosure policies

For reference, we discussed with Chad and Fred the multiple changes that have been made to the purchase frequency metric and the lack of disclosure regarding the individual components of Seller Services revenue. The seller adoption statistics that the Company currently releases are ineffective in helping shareholders understand the relative size and growth characteristics of each of these distinct services.

- Strategic Alternatives

For reference, we expressed that our goal is to see Etsy create stand-alone shareholder value and long-term community value as an independent company. However, given the Company's relatively small market capitalization, consolidation within the internet industry and operational synergies that could be realized as part of a larger company – Etsy is exposed to potentially being acquired earlier than management might otherwise prefer. Furthermore, investors might prefer this option given the lack of value creation since the Company's IPO and its failure to grow GMS. From our vantage point, any lack of confidence in the Company's ability to execute


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sufficiently on all the issues raised would certainly push us to lean towards value creation through strategic alternatives if the unique vision of Etsy can also be maintained.

We would like to again thank the Board for its cooperation and solicitation of our feedback and continuing our private dialogue. We are looking forward to working intimately with the company in creating long-term shareholder value. Let us know the Board members' availability in early May and we will arrange our schedules accordingly to meet the entire Board in New York.

We look forward to hearing from you soon.



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