



Etsy: Global Business, Global Tax Structure

Etsy's Global Tax Philosophy

We believe that companies should pay their fair share of taxes in the countries where they operate. As a global company, Etsy depends on the human capital and infrastructure in each location to operate our business. Paying our taxes is an important way to contribute to the communities where we operate, and to support our local Etsy sellers, Etsy buyers, employees and other stakeholders. Our tax strategy is based on a simple principle - we seek to pay the appropriate amount of taxes in every jurisdiction where we have operations, and to align our tax liabilities with the economic value created by our operations.

Etsy is a Global Business

There are Etsy sellers and Etsy buyers in nearly every country in the world. We have offices in six countries - Australia, Canada, France, Germany, Ireland, the United Kingdom, and the US, and our marketplace is available in 10 languages. In the third quarter of 2015, year-to-date international gross merchandise sales (GMS) percentage was approximately 30% of total GMS, meaning roughly a third of GMS on our platform involved a buyer or a seller outside of the US. Additionally, third quarter 2015 year-to-date international revenue to Etsy was approximately 22%, meaning a fifth of our revenue was derived from sellers located outside the US. Over time, we hope to increase our international business. We have a publicly stated goal to grow international GMS to represent 50% of our total GMS over time.

International expansion is a business priority for Etsy. One of our key company strategies is to "Build Local Marketplaces, Globally." In this, our vision for Etsy's future growth is both global and local. We are building Etsy's global foundation by developing local markets in key countries outside the US where we see both local buyer and seller activity, and where we can generate positive local experiences. Although we promote cross-border transactions, our strategy is to deepen local Etsy communities around the world, each with its own ecosystem of Etsy sellers and Etsy buyers. Our success and long-term growth will depend, in part, on international Etsy sellers and international Etsy buyers constituting an increasing portion of our community. To achieve these goals, we are scaling our international staff and operations. As we focus on growing our business abroad, we aim to increase the proportion of international GMS, and consequently revenue, relative to that of the US.

Etsy's Irish Subsidiary Manages our Business Outside the Americas

In 2011, we established an office in Dublin and formed Etsy Ireland, an Irish subsidiary of the Etsy US entity (Etsy US), to perform marketing services to support the development of our sellers and buyers in Ireland. Responding to the need for locally relevant buyer and seller services to support our growing international business, we started performing translation services and seller account management out of our Dublin office in January 2013.

As we became aware of the opportunity for our international business to contribute more significantly to the growth of the company, it became apparent that a high-level regional presence in our key markets outside of the US was necessary. In 2015, Etsy Ireland became Etsy's Non-Americas headquarters to manage our Non-Americas business and co-develop our platform outside the US.

Ireland was a logical choice for the location of our Non-Americas headquarters for many reasons. We already had a genuine and substantial footprint in Ireland, with 30 full-time employees. In addition to our substantial presence, Ireland is attractive because it has an educated, multi-lingual pan-European workforce, a large amount of skilled technology professionals, a lower cost of doing business relative to other European cities, and a favorable income tax rate of 12.5%.

Our Dublin office is a crucial part of our international operations. As of December 1, 2015, Etsy Ireland employed approximately 45 people in Dublin. We plan to grow the number of Dublin employees significantly to include a sizable portion of our product development engineers as well as employees in member operations, translation services, human resources, tax, legal, policy, accounting, seller support, and marketing.

Our commitment to building a strong presence in Ireland is reflected in our actions. The heads of our international operations in various departments are based in Dublin, including HR, engineering, legal, and public policy. This is in contrast to our other international offices, which generally comprise local buyer and seller development and marketing personnel. In 2014, Etsy Ireland signed a 10-year lease on nearly 10,000 square feet in Dublin to house the expanding team and develop the community there.

Etsy's Non-Americas Business and its Intellectual Property

In January 2015, Etsy US sold a minority but substantial portion of its intellectual property to Etsy Ireland commensurate with the anticipated portion of business activity outside the Americas. This transaction is in alignment with our global tax philosophy and it also balances the taxation of our profit with the business risks of the two jurisdictions where we have regional headquarters.

We engaged a third party to perform an arm's-length valuation of our overall IP to establish a purchase price. Etsy Ireland paid for the IP via an intercompany note with the US, which it will repay over time using cash generated from its business operations. Etsy US will pay US corporate taxes on the income earned from the sale of that IP, which will be significant because the gain was triggered by a sale of a minority, but substantial, portion of one of our most valuable assets. We believe that the sizable upfront cost of this transaction will ultimately be outweighed by the overall profitability that will result from the growth in our international business, but we will only recoup this expense if our sales and operations continue to grow.

Our ability to grow our business in Non-Americas markets, service our buyers and our sellers in those markets, and have the senior management in the region are the factors that will determine if there will be a reduction in our blended global corporate tax rate relative to what would have existed if all worldwide revenue was taxed in the US. Having the income that results from the local execution of our overall international business strategy taxed in the jurisdiction where the activities are being performed is consistent with our global tax philosophy and is aligned with the business risk.

Our Global Tax Footprint

Our tax footprint appropriately reflects the global nature of our business. Revenue generated in the Americas will be recognized by our Americas headquarters in the US and revenue generated outside of the Americas will be recognized by our Non-Americas headquarters in Ireland. We pay tax in every jurisdiction where we have an office at a level commensurate with the amount of activity being conducted there. To determine the appropriate taxes to pay in each jurisdiction, we use transfer pricing, on an arm's-length basis.

Our tax planning is done consistently with Etsy's values: we care about Etsy sellers and about having a tax footprint that aligns with our operational substance. The driving force behind our decisions is our values and our belief that in following our values, we won't have to choose between our community and our business. In fact, we intentionally avoided certain tax structures that are not aligned with our values. There are many different ways we could have structured our business if our primary objective were to achieve tax-savings. For example, we did not:

- Choose a jurisdiction that has either a zero tax rate, or a negotiable tax rate.
- Employ a "Double Irish" tax strategy where residual corporate income is effectively taxed nowhere.
- Create multiple shell entities that enable profits to be distributed to other tax havens.
- Transfer 100% of the IP to Etsy Ireland, and license back the IP to Etsy US to reduce/eliminate US taxes.
- Purchase a small company in a low-tax jurisdiction and move our global headquarters there.

The information in this Disclosure Statement is up-to-date as of December 1, 2015. It is intended to be an informative summary in connection with the B Lab certification process, but it is not exhaustive. In addition, this Disclosure Statement includes forward looking statements regarding our business and tax strategies and plans, business operations, and future growth. We have high hopes, but these forward-looking statements involve risks and uncertainties and our actual results could be very different. These risks and uncertainties are more fully described in our filings with the Securities and Exchange Commission, including in the section entitled "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2015.