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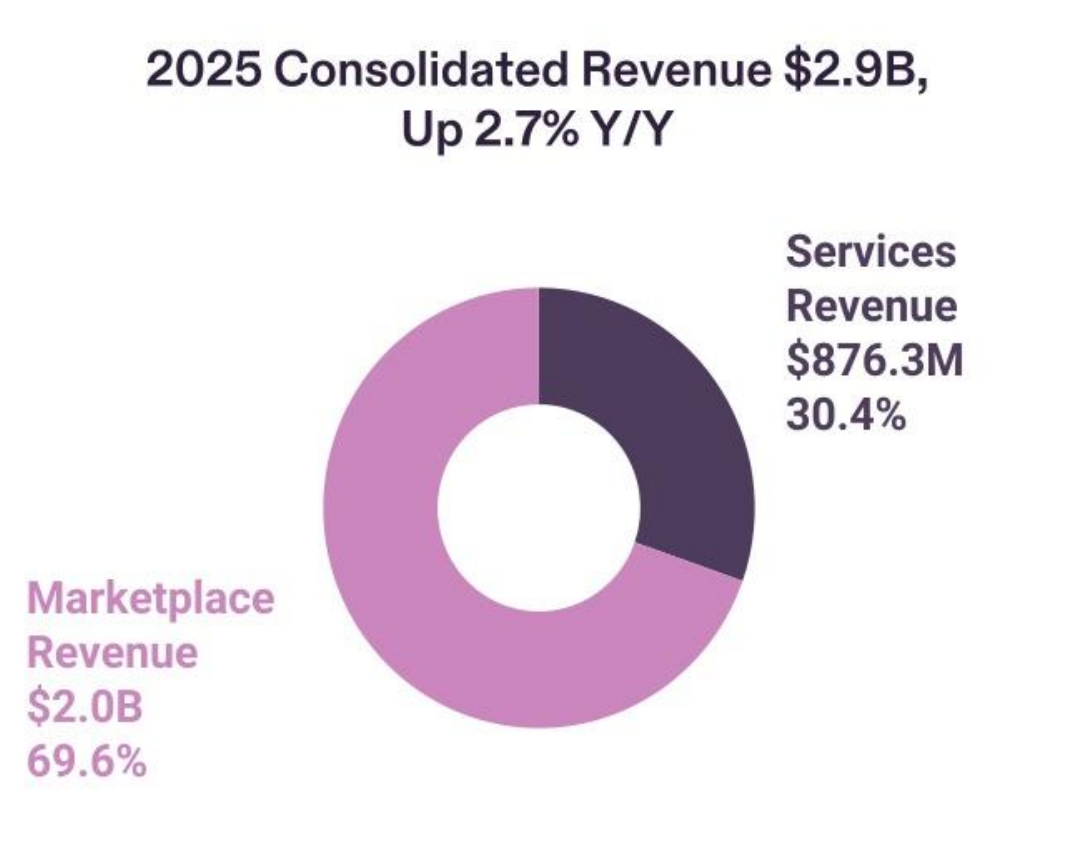
About Etsy

- Etsy, Inc.
- Founded June 28, 2005
- Went public April 16, 2015 (ETSY)
- Brooklyn, New York
- E-commerce



Core Business



Service Revenue (Profit: $627,726)

(Optional value-added services)

- On-site Advertising
- Shipping Labels
- Other

Marketplace Revenue (Profit: $1,437,975)

(Required Fees)

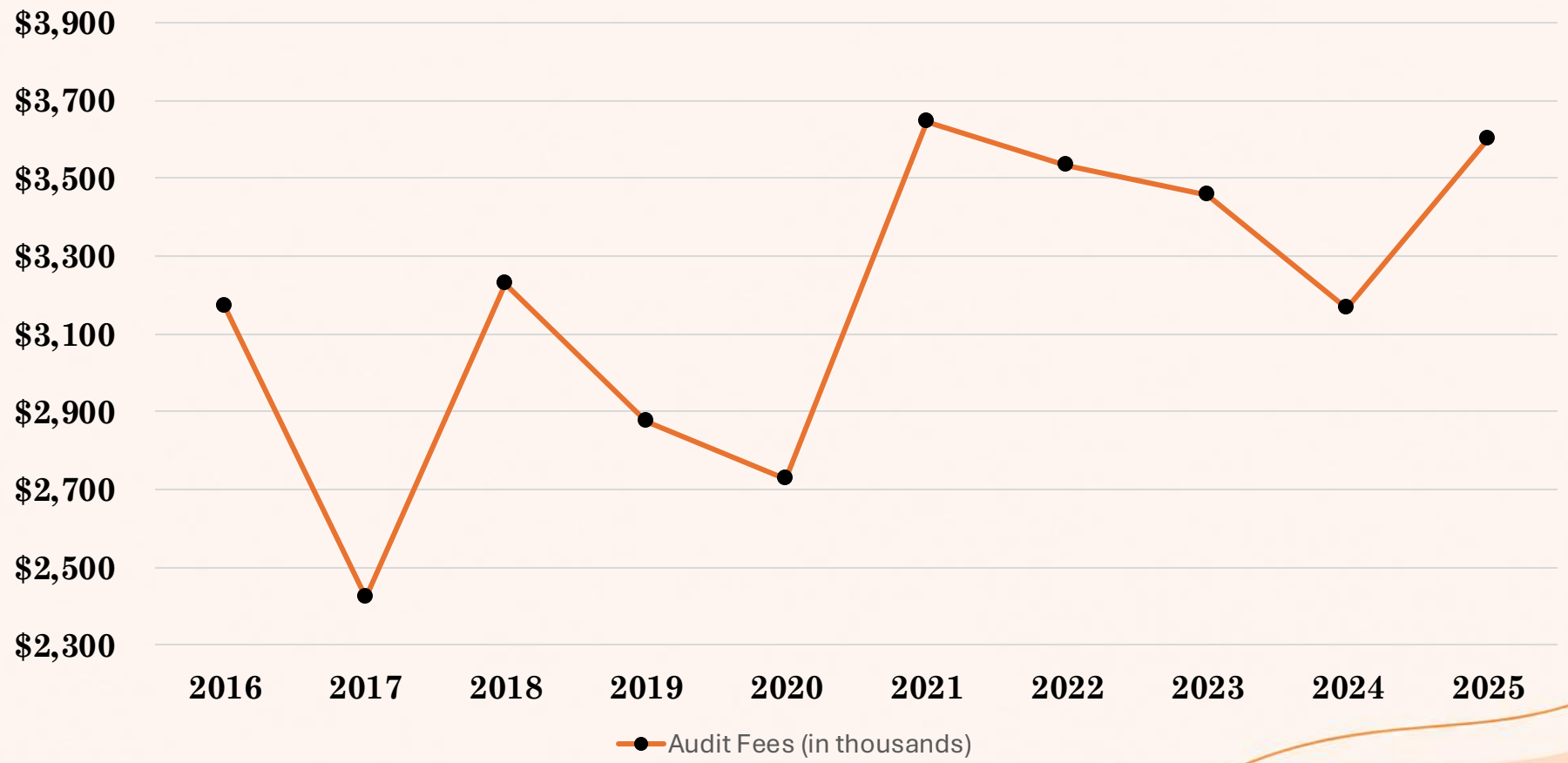
- Transaction Fee (inclusive of Offsite Advertising Fee)
- Payment Processing Fee
- Listing Fee
- Other

Auditor/Audits

- PricewaterhouseCoopers LLP. New York, New York
- PWC has served as auditor since 2012
- FYE 12/31 - audit deadline 3/1
- Audit opinions for 2016 – 2025:
  - Financial Statement – **Unqualified**
  - Internal Controls – **Unqualified**
- Basis of opinions:
  - Financial Statement – **PCAOB** standards
  - Internal Controls – **COSO** standards



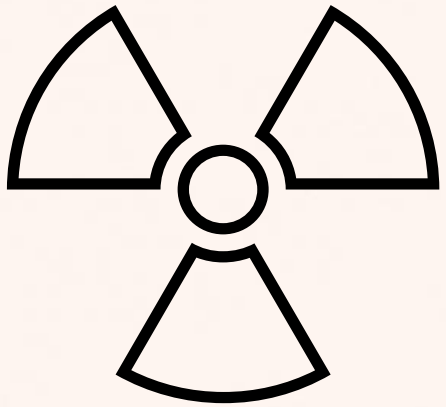
Audit Fees (in thousands)



Risk Factors

Inherent risk

- Cybersecurity & Technology risk
- Fraud Risks
- Third-Party Dependence Risk



Control risks

- IT general controls
- Revenue Processing Controls
- Fraud monitoring controls

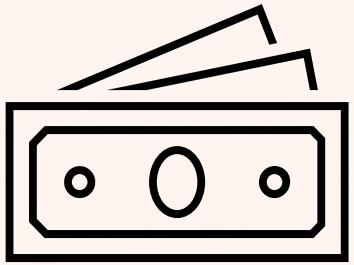
Risk Factors (continued..)

Detection Risk

- Extremely high Transaction Volume
- AI / Automated systems
- Fraud Concealment

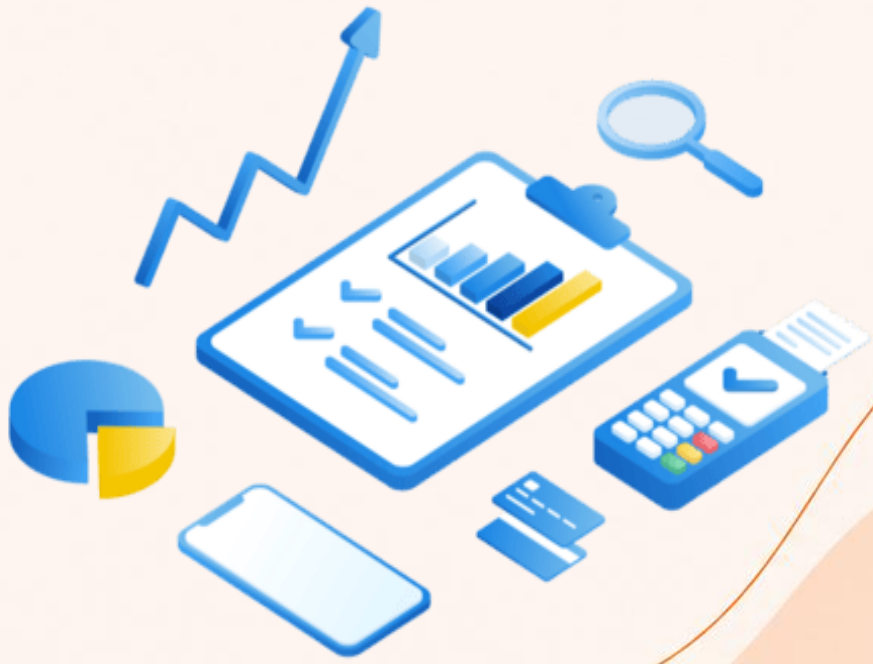
Risky Accounts

- Revenue
- A/R
- Cash and cash Equivalents
- Refund liabilities



Critical Audit Matter

2019:	Reverb Acquisition Valuation
2020:	Convertible Notes
2021:	Depop Acquisition Valuation
2022:	Goodwill Impairment (Depop & Elo7)
2023:	Reverb Goodwill Assessment
2024-2025:	Revenue Recognition



Detailed Audit Procedures

High-risk accounts:

- Revenue
- Accounts Receivable

Revenue – Audit Procedures:

- Test internal controls over revenue recognition systems
- Select sample transactions and trace them to accounting records
- Perform cutoff testing near year-end
- Compare revenue trends with prior years
- Reconcile platform reports to general ledger
- Verify payment processor reports

Detailed Audit Procedures

Accounts Receivable – Audit Procedures:

- Review subsequent cash collections
- Reconcile receivable balances to general ledger
- Review aging schedules and allowance estimates
- Perform cutoff testing



Timing



Revenue

- Interim testing: Test internal controls and compare revenue trends
- Year-end testing: Trace sample transactions, perform cutoff testing, reconciliation, and verify payment processor reports

Accounts Receivable

- Interim testing: Review aging schedules, allowance estimates, and reconcile receivable balances
- Year-end testing: Review subsequent cash collections, and perform cutoff testing

Group Audit

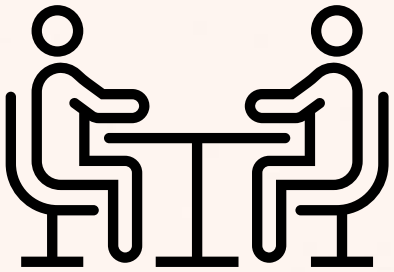
- For Etsy, we are planning to use in-network component auditors for certain foreign operations and subsidiaries. The lead auditor is expected to take full responsibility for the component auditor's work after evaluating their competence, independence, and audit procedures. Therefore, component auditor may not need to be disclosed in the audit opinion.



- The timing for group audit procedures will generally follow the same timeline as the overall audit to ensure all component audit work is completed before the final audit opinion is issued.



Final Verdict



The Audit partner should accept Etsy as a client.

- Significant risks but manageable
- Etsy has received unqualified opinion for past 10 years
- Audit fees continuously increased over the years
- Investment portfolio has no direct ownership



Q&A

