

Shutterstock, Inc.
Form 10-K
February 26, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ___ to ___

Commission File Number: 001-35669

Shutterstock, Inc.

(Exact name of registrant as specified in its charter)

Delaware

80-0812659

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

350 Fifth Avenue, 21st Floor

New York, New York

(Address of principal executive offices)

10118

(Zip Code)

(646) 710-3417

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, \$0.01 par value per share New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

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Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2018, the last business day of the registrant’s most recently completed second fiscal quarter, the aggregate market value of its voting and non-voting common stock held by non-affiliates was \$889,122,569, based on the last reported sale price of the registrant’s common stock on that date. This calculation excludes the shares of common stock held by executive officers, directors and stockholders whose ownership exceeded 10% of the outstanding common stock of the registrant at June 30, 2018. This calculation does not reflect a determination that such persons are affiliates for any other purposes.

On February 22, 2019, 35,081,109 shares of the registrant’s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Annual Report on Form 10-K, to the extent not set forth herein, is incorporated herein by reference from the registrant’s definitive proxy statement relating to the Annual Meeting of Stockholders to be held in 2019, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Annual Report on Form 10-K relates. Except as expressly incorporated by reference, the registrant’s proxy statement shall not be deemed to be part of this report.

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For the Fiscal Year Ended December 31, 2018

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PART I

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, particularly in the discussions under the captions “Business,” “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Examples of forward-looking statements include, but are not limited to, statements regarding future business, future results of operations or financial condition, new or planned features, products or services, or management strategies. You can identify these forward-looking statements by words such as “may,” “will,” “would,” “should,” “could,” “expect,” “anticipate,” “believe,” “estimate,” “intend,” “plan” and other similar expressions. However, not all forward-looking statements contain these words. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking statements. Such risks and uncertainties include, among others, those discussed under the caption “Risk Factors” of this Annual Report on Form 10-K, as well as in our consolidated financial statements, related notes, and the other information appearing elsewhere in this report and our other filings with the Securities and Exchange Commission, or the SEC. Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. We do not intend, and, except as required by law, we undertake no obligation, to update any of our forward-looking statements after the date of this report to reflect actual results or future events or circumstances.

Unless the context otherwise indicates, references in this Annual Report on Form 10-K to the terms “Shutterstock,” “the Company,” “we,” “our” and “us” refer to Shutterstock, Inc. and its subsidiaries. “Shutterstock,” “Offset,” “Bigstock,” “Re Features,” “PremiumBeat” and “Shutterstock Editor” and their logos are registered trademarks and are the property of Shutterstock, Inc. or one of our subsidiaries. All other trademarks, service marks and trade names appearing in this Annual Report on Form 10-K are the property of their respective owners.

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Item 1. Business.

Overview

Shutterstock is a global technology company offering a creative platform, which provides high-quality digital content, tools and services to creative professionals. Our platform brings together users and contributors of content by providing readily-searchable content that our customers pay to license and by compensating contributors as their content is licensed.

The digital content licensed by our customers include: (a) imagery, consisting of licensed photographs, vectors, illustrations and video clips, which is used in visual communications, such as websites, digital and print marketing materials, corporate communications, books, publications and video content; and (b) music, consisting of high-quality music tracks and sound effects, which is often used to complement digital imagery. For customers seeking specialized solutions, we also create custom, on-brand content through our platform by matching our global contributor network against the unique needs of our customers. This model allows us to offer customers a fast and scalable way to produce cost-effective content that is in line with the visual footprint of their brand. The processes we maintain to properly license content and the indemnification protections we provide, allow individuals and businesses of all sizes, including media agencies, publishers, production companies and creative service providers, to enter into licenses with the confidence to utilize such content for their unique commercial or editorial needs. We also offered digital asset management services through Webdam, our cloud-based digital asset management business, which we sold in February 2018.

We believe that our licensing model and creative platform drive a high volume of download activity that in turn provides a high volume of search, download and other customer behavioral data that enables us to continuously improve the quality and accuracy of our proprietary search algorithms, including keyword and similar image identification, and encourages the creation and contribution of new content to meet our customers' needs. We enable users to search and discover content to meet their unique needs by searching our collection and previewing our content at no cost prior to licensing.

We also leverage, to the greatest extent possible, the global nature of our user interfaces and marketing efforts, including local languages, currencies and payment methods, and our effective use of current and emerging technology and marketing channels to attract and retain customers and contributors. We believe that we benefit from a network effect between customers and contributors: as we have grown, our broadening audience of paying users has attracted more content from contributors, and the increasing selection of high-quality content has in turn helped to attract more customers to our sites. The success of this network effect is facilitated by the trust that users place in Shutterstock to maintain the quality and integrity of our branded marketplace, and our commitment to seamless integration into users' creative workflows.

Our Products

We offer licenses for a variety of content types, including current, archival and commissioned photographs, illustrations, vector art, video clips and music tracks. Generally, we provide our content under a royalty-free non-exclusive license and each piece of content available for license has been vetted by a team of reviewers to ensure that it meets our standards of quality and can be appropriately licensed for commercial or editorial use. We provide several offerings across our creative platform, as follows:

Shutterstock - Shutterstock is our flagship brand and the majority of our revenue is generated through shutterstock.com. We continuously work to expand the collection of photographs, vectors, illustrations and video clips available on shutterstock.com to further establish Shutterstock as a top source of high-quality digital imagery for multimedia producers world-wide.

Bigstock - Bigstock maintains a separate, extensive library of photographs, vectors, illustrations and video clips that is specifically curated to meet the needs of independent creators and others seeking to incorporate cost-effective digital imagery into their projects.

Offset - For high-impact use cases that require extraordinary imagery, our Offset brand provides authentic and exceptional imagery, featuring work from top assignment photographers and illustrators from around the world, in addition to work from established and respected collections such as National Geographic®. Every image in the collection is hand-selected, chosen for its artistic distinction and narrative quality, and is curated into specific

categories such as lifestyle, food, travel and fashion.

Shutterstock Select - In November 2018, we launched Shutterstock Select, a premium collection of royalty-free video content available on shutterstock.com. This diverse collection of video clips includes exclusive content widely ranging from everyday moments to blockbuster action scenes, all captured by industry professionals using cinema-grade cameras and selected by our expert curators.

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Shutterstock Custom - Shutterstock Custom is a complementary offering on Shutterstock's creative platform that fulfills marketers' need to scale unique branded content including photos, video clips, GIFs, cinemagraphs and 360° video content. Shutterstock Custom is powered by the proprietary technology that we gained through our acquisition of Flashstock Technology, Inc. ("Flashstock") in 2017, and which we expect to grow in the future as we continue to seek expansion in the market for custom content creation.

Shutterstock Editorial - Shutterstock Editorial includes Rex Features and provides editorial imagery, such as entertainment, sports and news images, to a broad range of customers from independent bloggers to traditional media outlets by providing a real-time feed of editorial content and an extensive archive of editorial images. We have entered into distribution agreements with a number of leading editorial image agencies and industry partners including exclusive distribution agreements with several third-party organizations.

Shutterstock Music - Shutterstock Music provides thousands of handpicked audio tracks and sound effects at affordable prices, giving businesses, marketers, producers and filmmakers access to the audio content they need to bring their ideas to life. Shutterstock Music, along with the PremiumBeat brand, are curated royalty-free music service offerings that allow access to a full collection of exclusive, high-quality tracks and enables users to search handpicked production music from the world's leading composers.

In addition to our product offerings, we also provide the following tools to enhance our customers' workflow and project management needs as well as to enable efficient search capabilities:

Superior search - We obtain a high volume of data generated from user searches and content downloads, which enables us to continuously improve our search algorithms. Our behavioral and keyword data, along with our investments in technology and our experience in developing search algorithms, enhance our users' search experience by increasing the chances that our users find the content they require in a timely and efficient manner.

Application programming interface (API) - We maintain an API driven infrastructure, enabling integration of our content platform with various other software tools and services, such as Facebook Ads, IBM Watson® Content Hub, Google Ads and Wix, which allow businesses to gain access to our content without leaving their platform. In addition, we have developed plug-ins that our customers can use to seamlessly access our content directly from Adobe Creative Cloud® desktop applications, Google Slides™, Apple's Final Cut Pro® X video editing application and several Microsoft applications.

Showcase - Shutterstock Showcase (www.shutterstock.com/showcase) features deep learning-powered search tools based on our most innovative artificial intelligence technology designed to help customers find the content they need fast.

Reveal is a Google Chrome™ browser extension allowing users to select any image online and find a similar photo, vector or illustration within Shutterstock's collection.

Copy Space is based on Shutterstock's custom-built computer vision technology enabling users to specifically search for images that have space for text and then select where and how much copy space is needed.

Refine enables users, from the first page of search results, to select those images most similar to what they are looking for, and Shutterstock's technology will surface other similar images.

Composition Search enables users to add keywords to a canvas to search for a specific layout of objects within an image.

Editor and Editor Pro - Shutterstock Editor and Editor Pro are feature-filled cloud-based workflow tools that provide a robust solution for creative professionals to quickly size, edit and enhance images for immediate use in presentations, social media posts or advertisements. These tools are designed to simplify the process of editing Shutterstock's millions of photos and illustrations into compelling presentations.

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Sales and Distribution Channels

Our online platform provides a freely searchable collection of digital content that our users can pay to license, download and incorporate into their work. We encourage all our customers to take advantage of our creative platform's comprehensive search capabilities, our credit card-based payment options and the immediate digital delivery of licensed content. We strive to offer simple, transparent purchase options designed to cater to customers' specific needs. We believe the ability to search for, select, license, download and customize content on our creative platform offers our users a streamlined workflow, convenience and speed, and enables us to achieve greater economies of scale. We also have contractual arrangements with third-party resellers and affiliates to license digital content to customers in markets where we do not have a significant sales and marketing presence. Certain third-party resellers and affiliates sell our products directly to end-users and remit amounts to us based on the type of product sold.

Customer sales are made through the following channels:

E-commerce: The majority of our customers license content directly through our self-service web properties.

E-commerce customers have the flexibility to purchase a subscription-based plan that is paid on a monthly or annual basis or to license content on a transactional basis. These customers generally license content under our standard or enhanced licenses, with additional licensing options available to meet customers' individual needs. E-commerce customers typically pay the full amount of the purchase price in advance or at the time of license, generally with a credit card, which has historically resulted in favorable timing of cash flows relative to the time that revenue is recognized and contributor royalties are earned and paid.

Enterprise: Our base of enterprise customers is mainly composed of creative professionals and large organizations with unique content, licensing and workflow needs. As our enterprise customer base has grown, the number of unique offerings has also grown, as we continue to address individual business needs. Customers of this size benefit from communication with our dedicated sales, service and research teams which provide a number of tailored enhancements to their creative workflows including non-standard licensing rights, multi-seat access, ability to pay on credit terms, multi-brand licensing packages, increased indemnification protection and content licensed for use-cases outside of those available on our e-commerce platform. We continue to focus on our localization and enterprise expansion strategy and are investing resources in cultivating key international markets which we believe have significant growth potential and strategic importance.

Other: Our other sales channel includes revenue from Webdam's digital asset management offerings which were made available through annual software-as-a-service subscription plans. On February 26, 2018, we completed a sale transaction of our digital asset management business (the "Sale of Webdam") for an aggregate purchase price of \$49.1 million.

Revenues generated from each of the sales channels are as follows (in thousands):

	Year Ended December 31,				
	2018	2017	2016	2015	2014
E-Commerce	\$365,730	\$332,376	\$318,916	\$300,051	\$263,455
Enterprise	254,809	208,713	164,384	118,492	62,316
Other	2,711	16,022	11,017	6,606	2,200
Total Revenue ⁽¹⁾	\$623,250	\$557,111	\$494,317	\$425,149	\$327,971

⁽¹⁾ Effective January 1, 2018 we adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") using the modified retrospective approach. Historical revenue totals reflect those previously reported and have not been restated. The historical presentation of the allocation of revenue by sales channel for the periods prior to January 1, 2018 have been adjusted to conform to current presentation.

Our Customers

We serve a diverse array of customers across a variety of industries, organizational sizes and geographies. For the year ended December 31, 2018, approximately 1.9 million customers in more than 150 countries licensed revenue-generating content, with approximately 37%, 33% and 30% of revenue coming from customers in North America, Europe and the rest of the world, respectively. Our top 25 customers in the aggregate accounted for less than 5% of our revenue in 2018. Our customers are classified among three categories, as follows:

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Marketing Professionals and Organizations. Marketing professionals and organizations incorporate licensed content in the work they produce for their organizational or clients' business communications. Whether providing graphic design, web design, interactive design, advertising, public relations, communications or marketing services,

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our marketing professional users range from independent freelancers and internal corporate marketing professionals to the largest global agencies and Fortune 500 companies.

Media and Broadcast Companies. Media organizations and professionals incorporate licensed content into their work, which includes digital publications, newspapers, books, magazines, television and film, as well as to market their products effectively. Our media users range from independent bloggers to multi-national publishing, broadcast and production organizations.

Small and Medium-Sized Businesses. Organizations of all sizes utilize creative content for a wide range of internal- and external-use communications such as websites, print and digital advertisements, annual reports, brochures, employee communications, newsletters, email marketing campaigns and other presentations. These organizations range in size and type of organization, from sole proprietors to large not-for-profit organizations.

Content Contributors and Content Review Process

Our collection of content is provided by a community of contributors from around the world and is vetted by our proprietary technology and specialized team of reviewers to ensure that it meets our standards of quality and licensability. Whether photographers, videographers, illustrators, designers or musicians, our community of more than 650,000 approved contributors as of December 31, 2018 ranges from part-time enthusiasts to full-time professionals, and all of them must meet our robust quality standards. Supplementing the content in our collection and enabled by our acquisition of Flashstock, we launched Shutterstock Custom in 2017, which through our platform, connects business customers with a vast network of contributors from whom to request custom branded imagery to meet their most specific content needs. The content contributed by our five highest-earning contributors was together responsible for less than 3% of downloads in 2018, demonstrating the breadth and depth of our contributor population.

The breadth and quality of our content offerings are critical to our success, and we have created an easy-to-use online account creation process, which we are continually improving, through which we enable contributors to create an account, become verified, submit content, and once approved for submission, upload content onto our platform for licensing. We evaluate submissions based on certain technical and legal criteria to ensure we maintain the quality and integrity of our content library, including whether applicable releases have been obtained, whether third-party intellectual property is excluded and seeking to minimize other technical concerns such as excess noise or focus issues. As of December 31, 2018, over 350 million images and video clips have been submitted from verified contributor accounts. For each content submission that is not approved during the review process, we notify the contributor by email with an explanation why the image was not published, including guidance on our standards and insight into customers' expectations. We believe that this feedback is valuable to contributors and enhances the quality of future content submissions as well as our customers' experience.

We use proprietary computer vision technology along with a trained team of reviewers to complete a comprehensive evaluation of all content submissions. Our content review process is highly efficient, and our content review team strives to evaluate and process images and video clips within 24 hours of submission to make them available for license on our sites, while working to continually improve our process to reduce review time.

Contributors are required to add a descriptive title and up to 50 keywords to each image and video clip submitted. We guide our contributors to provide terms that not only describe literally the objects in the image or clip, but also what is conveyed conceptually and thematically. We provide technical keywording assistance to contributors through our suggested keyword tools, which include a tool that leverages our proprietary computer vision technology to automatically suggest keywords based on visually similar images. We have compiled a vast amount of data relating to the content in our collection, including keywords and aggregated customer behavioral data, which combined with our proprietary computer vision and artificial intelligence technology, drives discovery of content through our search algorithms and search engine optimization (SEO), therefore empowering customers to discover the content best suited for their needs.

Content accepted into our collection is added to our web properties where it is available for search, selection, license and download. Contributors are paid based on how many times their content has been licensed in the previous month. Contributors may choose to remove their content from our collection, subject to the terms of service that govern our contributor relationships.

We provide different earnings structures to contributors based on content type and customers' licensing needs:

Images. Contributors of photographs, vectors and illustrations to our e-commerce platform typically earn a royalty each time their images are licensed. The exact amount earned is determined by the type of license obtained and our published earnings schedule which is based on (i) the contributor's total historical earnings paid by us, which determines the contributor's earnings tier; and (ii) the purchase option under which the content was licensed.

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Contributors may earn more per download when images are licensed under our personalized licensing options or are licensed for editorial use only and, in these instances, can earn up to 50% of the sales price for a licensed image.

Video Clips and Music. Contributors of video clips and music tracks also typically earn a royalty each time their video clips or music tracks are licensed. When a contributed video clip or music track is licensed, the contributor is typically paid between 30% and 50% of the sales price per download.

In addition to content sourced through direct submission to our e-commerce platform, we also obtain all types of content through exclusive distribution agreements with strategic partners or through the direct acquisition of content, content libraries or archives. In certain cases, we enter into arrangements with contributors or strategic partners whereby we guarantee a minimum royalty, usually paid up-front, in exchange for exclusive rights to distribute content when we believe such exclusivity provides us with a distinct competitive advantage. When we license content that has been obtained through direct acquisition, we pay no royalties. In recent years, we have enhanced our collection through the direct acquisition of content and by entering into other strategic agreements and partnerships. We have also enhanced our collections and our content acquisition capabilities through our acquisitions of PremiumBeat, Rex Features, The Picture Desk Limited, and Flashstock. We continue to seek opportunities for direct acquisition and strategic partnerships to enhance our collection and provide customers with relevant and high-quality content.

Technology and Infrastructure

Our technology is critical to our business and we have developed proprietary technology to power our products and services. We believe that delivering intuitive, fast and effective user experiences, supported by scalable technology platforms, is critical to our success. We employ technology to support both our public-facing web properties and our back-office systems. In developing and enhancing these sites and systems, we focus our internal development efforts on creating and enhancing specialized proprietary software that is unique to our business and we leverage commercially available and open source technologies for our more generalized needs.

Our customer-facing software enables users to search the millions of digital images, vectors, illustrations, video clips and music tracks available in our collection or request custom branded content and then select, organize, pay for, license and download the content that suits their individual needs. Our search platform evolves automatically based on behavioral data, with each search and download that a user performs on our platform providing our search engine with additional information to improve search results in subsequent queries. We consider the data that we have collected and the search technology that it powers to be an important proprietary asset and competitive advantage that allows us to provide exceptional service to our customers and enable our business. We also continue to invest in the localization of our creative platform across many countries and regions, allowing customers to search and make purchases in a variety of languages and currencies.

Further, we have continued to build and launch innovations to the customer experience. Over the last few years, we have launched additional tools on our platform, such as our in-browser image editing tools, Shutterstock Editor and Editor Pro, to further enhance the customer experience, improve the customer's workflow and eliminate time-consuming steps in the creative process. We continued to improve the features, functionality and availability of these tools during 2018. We also maintain an API driven infrastructure, enabling integration of our content platform with various other software tools and services, which enables businesses to gain access to our content without leaving their platform.

We have developed contributor-facing web properties that enable individuals and creative professionals to become contributors, upload and tag content, receive feedback on their submissions from our review team, see reports on earnings and payouts, and participate in online discussion forums with other contributors, among other activities. We have also developed proprietary tools to enable our contributors to improve their success on our web properties, including our keyword trends tool that allows contributors to see what terms customers are searching for and how those search terms are trending over time, which, in turn, allows contributors to anticipate demand and generate content that customers may want to license. Our contributor-facing web properties are powered by proprietary technology which supports a content review system that allows our review team to efficiently and effectively review content submissions. Our combination of proprietary technology and large-scale datasets allows us to deliver value to our users and enhances their experience on our platform, which drives and grows our marketplace.

We use a combination of internally-developed software and third-party applications that enable customer and contributor support, intellectual property rights and license tracking, centralized invoicing and sales order processing, customer database management, language translation and global contributor payouts, in addition to supporting the compliance, finance and accounting functions.

Our systems infrastructure is hosted primarily by third-party cloud hosting providers that offer high-speed network access, auxiliary power generators and back-up systems. Further, we also maintain third-party production data centers to support certain applications and business continuity in the event of an emergency. While we have moved primarily to third-party cloud

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hosting providers, we also continue to invest in improvements to our infrastructure to improve the resiliency of our sites and systems.

By using a cloud services provider, we believe we will be able to dedicate an increasing proportion of our technology resources to running and scaling our business, better serving our rapidly growing collection of content and scaling globally to meet customer demand. We believe continued use of public cloud hosting, along with improvements to our platform, will allow us to further diversify our product offerings, reach new customers and contributors around the world and, by removing inhibitors related to our infrastructure, enable our developers to rapidly deploy new products, features and functionality.

We have expanded our use of content delivery network solutions to help enable our customers around the world to have sustained and reliable high-speed access to our content marketplace. As we continue to grow our business, our technological needs continue to expand and therefore, we continually invest in our technology to enhance existing products and services and to develop new products and services. We view our investments in technology as integral to our long-term success and we intend to continue to investigate, develop and make increased capital investments in technology and operational systems that support our current business and new areas of potential business expansion.

Marketing and Customer Support