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Q2 2022 Earnings Call

Prepared Remarks

Avishai Abrahami, Co-founder and CEO

Thank you Emily and good morning everyone. Thank you for joining us today.

I want to start our call this morning with some comments about Q2 and then highlight some of the key points from our Analyst and Investor Day in May.

Nir will walk you through a few operational updates on our business and Lior will wrap it up with the financial highlights and an update on guidance.

As we know, Covid obviously brought a massive surge of people and businesses to the internet propelling our business beginning in early 2020. We were fast to respond to the needs of our users helping them to generate income while their offline income was brought to a standstill. As part of our response to the high demand we increased our hiring activity.

Now that we are post Covid, the addition of new users to the funnel has come back similar to 2019 levels, and people are buying less on the internet and buying less offline. This results in many of our users selling less which lowers our GPV. This is not unique to us as many internet companies feel it.

So as the market continues to be volatile, which we obviously cannot control or predict, we are increasing our focus on what we can control to achieve the profitability targets we shared in the three year plan we presented in May. We committed to this plan, and we are executing on it.

And so, we announced today a \$150 million dollar cost savings plan to allow us to meet our profitability targets and accelerate gross margin and operating margin in 2023 even if market conditions remain challenged. Nir and Lior will walk you through more of these details.

Now, let's talk about the quarter. We are satisfied with how the fundamentals of our business remained strong in Q2.

Revenue grew to more than \$345 million or 9% year over year about where we expected and grew 11% year over year on a constant currency basis.

The fundamental measures of our business performance remain very strong.

In fact, our average revenue per subscription is now 32% higher as of this quarter compared to Q2 2019. This is very positive as conversion and retention remain the same over this period. This tells us that users are finding much more value in our platform.

Our Partners business also continues to perform well growing revenue 31% year over year. This is on top of an incredible 87% year over year growth we saw in the same quarter last year.

Transaction revenue grew 13% year over year, and we continue to see increased adoption of Wix Payments, growing our take rate. Even with consumer spending slowing, our GPV continues to grow. Even more amazing is that since Q2 2019 our GPV has grown 360% which is incredible.

So even with demand coming back to 2019 levels our key growth initiatives are producing strong results.

Stepping back, I want to summarize some of what we shared at our Analyst and Investor Day and expand more on our strategy going forward.

Since the IPO, we have scaled revenue from \$80 million in 2013 nearly 17 times to \$1.3 billion dollars over the last year while serving hundreds of millions of users across the globe. Our focus on product innovation and development as well as marketing has been the key driver of this growth.

The first stage of our growth was introducing an elegant and simple website builder that anyone could use to create online.

Many of our innovations -- drag and drop, mobile design and AI design -- are now widespread across our competitors.

Just this month, we introduced our new Wix Editor which I am very proud of and excited about. The new Wix Editor combines the best of our Wix Editor and Wix ADI and will provide our users with an even better creation experience than before. In addition, it will bring efficiency and increased velocity to our product development.

This is the most significant update to our Wix Editor in many years and we believe it will contribute significantly to increased conversion and user success online.

We have tens of millions of users and it was clear they wanted more. So we moved into a second stage, which was an increased focus on businesses.

We invested in what our users are telling us they want -- to manage and grow their business online. Over the last several years, we introduced many vertical commerce applications, communication and marketing tools for businesses and payment capabilities.

Today, our Self Creators business generates over \$1 billion dollars in annualized revenue and is very profitable, as we shared with you in May.

In fact, our Self Creators business alone generates more revenue and is more profitable than the largest of our competitors serving the same market.

We have now expanded into a third stage and that is addressing the online creation needs of Partners, professional creators, agencies and enterprises. Our expansion has been informed by what we hear from our users.

We now have industry leading infrastructure that delivers performance among the fastest in our industry, robust security and high reliability. We are now praised by Partners for our outstanding SEO capabilities. We have massively improved our commerce applications to meet the needs of professionals and agencies. And, we have Velo for application development and Editor X for advanced design needs.

All of this development required us to invest a significant amount of resources into not only R&D but also our marketing to build a brand for professionals.

These expansions have grown our total addressable market significantly to 8 times larger than it was in 2017 to over \$200 billion dollars today.

We believe we will scale our Partners business to become profitable. Our optimism is supported by strong behavior in our Partner cohorts, which

grow bookings annually to 3 to 4 times the first year within their first 3 years. And the number of professionals coming to Wix every day continues to grow.

We shared our three year plan for achieving this scale and profitability, and we are committed to it. And despite the market volatility we are experiencing during this period, I'm more excited about Wix than I've ever been.

With that, I want to now turn it over to Nir.

Nir Zohar, President and COO

Thanks Avishai. I want to start with a quick update on our cohorts and then talk more about the cost cutting measures we are taking.

As Avishai mentioned, while we see demand at the top of the funnel returning to 2019 levels, our cohort fundamentals continue to improve. We continue to share with you the bookings of our Q1 user cohorts over the years, as you can see on slide 12 of our earnings slides. Our Q1'22 cohort through the second quarter illustrates this strong performance.

This cohort has generated \$40 million in bookings since it was created. This figure is nearly as high as the Q1 '20 cohort at \$41 million, which benefited

from increased online activity at the beginning of Covid, and it's higher than the last pre-covid Q1 cohort from Q1'19, which generated just over \$38 million in bookings.

This growth is impressive for a couple of reasons. First, with 6.1 million users, the Q1'22 cohort was slightly smaller in size than either the Q1'19 or Q1'20 cohorts.

Second, the growth also demonstrates that conversion and retention are at the same high rate as before, and just as importantly, and average bookings per subscription is increasing....this means we are monetizing our cohorts better. Users are selecting business packages much more, and more are adopting business solutions products and services.

If you recall at the Analyst Day, we showed you the cohorts segmented between Self Creators and Partners. This performance in the Q1'22 cohort is a result of the strong growth and bookings retention we are seeing in both the Self Creators and Partners cohorts.

It's also worth noting that we are in a much less favorable FX environment today compared to 2019 because we report in US dollars but collect cash in local currencies around the world, many of which are at or near historic lows against the US dollar.

Finally, I also want to point out that while our marketing spend for this Q1 '22 cohort was indeed higher than either Q1'19 or Q1'20, our returns are very much in line with our goals, as you can see on the TROI chart we shared on slide 13 in our slide deck.

I now want to shift gears and talk about the measures we are taking to continue working toward achieving the profitability targets we set forth at our Analyst Day in May.

The roots of this plan actually began in Q4 of last year as we were making plans for 2022. You recall we saw a lot of volatility and uncertainty and chose not to provide guidance at that time for the year because of it. We began thinking more carefully about developing more operational efficiency. We reduced our hiring activity and took a closer look at what was working and what was not. As an example, we decided then that we should discontinue marketing Wix Answers externally.

Volatility continued with the war in Ukraine, increasing energy prices, high inflation and currency fluctuations.

Moving through Q2, we did not see improvements to the environment, and recognized we need to take the next step to help us achieve our profitability targets.

We are now executing this next step of the plan and announcing a series of cost reduction actions. They include right sizing our employee base, which unfortunately means asking some people to leave. We are also making a significant reduction in hiring activities for the remainder of this year and next year.

As a result, we expect to realize approximately \$150 million of annualized savings across our cost of revenue expenses, operating expenses and capex.

These cost savings are not one-time in nature and will continue to benefit the company on an ongoing basis with 20% of the annualized savings being realized already in 2022. Also, we are not reducing any investments in user acquisition marketing that is adjusted by our TROI thresholds, which have not changed.

We expect that these cost savings will allow our free cash flow margin in 2023 to be consistent with the range provided in our three year plan, even if market conditions remain challenged. It will also accelerate gross margin and operating margin expansion next year faster than we had presented.

We continue to work to identify additional areas of productivity improvements across our Care, marketing and R&D functions, as well as opportunities to rationalize our real estate footprint.

These measures will allow us to increase our investments in our highest conviction growth opportunities, and we expect to see free cash flow margin expansion in 2023 and beyond.

I want to also add that our leadership made some very difficult decisions during this process. We have always been laser focused on growth at Wix, and this will not change. These changes allow us to continue to grow with a greater emphasis on profitability that is needed. We believe that these changes will make us stronger and prepare us for an even better future once the market stabilizes.

With that, I will hand it over to Lior

Lior Shemesh, CFO

Thanks, Nir.

Before I discuss guidance for the rest of the year, I'd like to highlight some of our second quarter results. Even against the market dynamics Avishai mentioned earlier, revenue in the second quarter grew to over \$345 million, representing 9% year-over-year growth and towards the top end of our guidance range provided in May. Revenue growth was 11% year-over-year on a constant currency basis.

Total bookings grew 3% year-over-year to nearly \$355 million, which was 7% year-over-year on a constant currency basis. This was in-line with our expectations as the headwinds that impacted revenue -- particularly unfavorable FX changes as well as the resetting of demand for online services and ecommerce to pre-COVID levels -- had an even larger impact on bookings. FX decreased bookings by approximately \$10 million compared to the year ago period.

Both revenue and bookings growth were driven by strong fundamentals and continued successful execution against our key growth initiatives.

In the second quarter, we saw conversion of new users to paid subscriptions continue at a stable rate, ARPS increase, and retention remain strong. Following the end of the quarter, we began to see early signs of improvement in top of funnel trends and higher return on marketing dollars in July into August.

Our efforts to grow the Partners business continue as planned with revenue increasing 31% year-over-year in the second quarter as the investments we made in recent years begin to pay dividends and are driving momentum across agencies, designers and developers across the professional ecosystem.

Transaction revenue also continued to grow despite ecommerce growth largely resetting to the pre-COVID trendline – it was up 13% year-over-year, driven by better monetization of payments as adoption of Wix Payments increased as well as GPV growth of 6% year-over-year to \$2.6 billion as a result of our diverse commerce platform.

On the expense front this quarter, we focused on executing on the targets we shared in May during our Analyst Day and driving leverage from the investments made over the past two years as the business scales.

Non-GAAP total gross margin was up sequentially to 62.5% as Business Solutions non-GAAP gross margin increased to 23.2%, driven by improved margins in our Payments business.

We continued to slow hiring and adjusted down our direct marketing investments by nearly 40% on a YoY basis to align with what we were seeing at the top of the funnel in order to stay within our TROI goals. As a result, non-GAAP operating margin improved compared to the prior year period.

Finally, free cash flow excluding capex associated with our headquarter buildout was negative \$6.0 million in the second quarter – this was lower than we had anticipated due primarily to unfavorable FX changes which decreased free cash flow by \$10 million on a year over year basis.

Turning now to guidance for both Q3 and full year 2022.

We expect third quarter revenue to be \$341 to \$345 million, or 7 to 8% year over year growth.

We now expect full year revenue to grow between 8 and 10% year-over-year. These growth figures account for the additional y/y FX headwinds we experienced through July and the assumption that 2022 is a year of continued volatility as demand resets to pre-Covid levels.

Free cash flow margin for the full year is now expected to be 2 to 3% as FX headwinds have deepened since May, but still remain within the target range we laid out during our Analyst Day.

On a y/y constant currency basis, our free cash flow for the full year would be 4-5% of revenue in 2022 as we discussed back in February.

Regarding the cost reduction plan that Nir spoke about, we still expect to achieve the 2022 and 2023 free cash flow targets we shared in May, despite timing of macroeconomic recovery.

Of the \$150 million of annualized savings, 25% will come from cost of revenue, mainly our care organization, which will produce about 200 basis

points of gross margin improvement in 2023 compared to our three year plan.

We also anticipate to see gross margin improve in 2022 as we start to recognize savings related to care.

The other 75% will come mostly from headcount-driven operating expenses. These do not include any plans to reduce our user acquisition marketing investments that we adjust to match our TROI thresholds, which we have not changed. These margin improvements will primarily be seen in our Partners business.

In times like these, there are certain things we cannot control. So, we are focusing on what we can control by executing on our strategic priorities while sustainably improving our cost structure.

The actions we're taking and decisions we're making today will help us emerge as a stronger and more resilient company once we're on the other side of these uncertain macroeconomic times.

With that, we are ready to take some questions.