

Wix First Quarter 2022 Results Conference Call May 16, 2022

Operator: Good day. Thank you for standing by. And welcome to the Wix's First Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised today's conference is being recorded. [Operator Instructions]

I would now like to hand turn the conference over to your host today, Emily Liu, Investor Relations Analyst. Ma'am, please go ahead.

Emily Liu: Thanks, Michele, and good morning, everyone. Welcome to Wix's First Quarter 2022 Earnings Call. Joining me today to discuss the results are Avishai Abrahami, CEO and Co-Founder; Nir Zohar; our President and COO; Lior Shemesh, our CFO; and Joe Pollaro, our GM of the US.

During this call, we may make forward-looking statements, and these statements are based on current expectations and assumptions. Please consider the risk factors included in our press release and most recent Form 20-F that could cause our actual results to differ materially from these forward-looking statements. We do not undertake any obligation to update these forward-looking statements.

In addition, we will comment on non-GAAP financial results and key operating metrics. You can find all reconciliations between our GAAP and non-GAAP results in the earnings material and in our Interactive Analyst Center on the Investor Relations section of our website, investors.wix.com.

Now, I'm going to turn the call to Joe, who will be moderating the Q&A with the team. Joe?

Joe Pollaro: Thanks, Emily. So, Avishai, you opened the shareholder letter this quarter with why you believe the Internet will continue to grow. Can you explain a little bit more about your conviction around this growth?

Avishai Abrahami: Yes, Joe. Thank you. I think it's based on a few things. First of all, if you look at the United States, in Q1, the GDP actually went down, while the Internet is still growing. We're growing at around 14%, and we see that most of our peers have also grown. So, that's showing that the Internet is still growing, and probably when the GDP growth goes back to normal toward 1% or a bit more than that, we'll probably see another acceleration of the Internet.

Another thing that is affecting the Internet today is probably that during COVID, we saw the Internet growing at 2 or 3 times the average pace of growth. And I think now digesting that growth and probably it makes sense, right, for growth to revert back to the mean. I think that is another path. But if we look at the micro-level, right, the things that actually create that growth of the Internet, SMBs, right, almost 50% of them are still not online.

And that is the reason that we're going to see a lot of continuous migration from that. Think about the online, right. There're still so many things that we do, booking appointments at some places, consulting, learning. There's so much more that we're doing every day that would make sense to do on the Internet, and it's not there yet. So, I think that is another path that we're seeing, and a lot of the commerce is still migrating online.

So, yes, we are in a place where reverting back to the mean, and yes, there is a very heavy weight coming from GDP going negative. But I think overall, the Internet – my belief is that the Internet will continue to grow in the future.

Joe Pollaro: And why do you think Wix is well-positioned to benefit from this growth?

Avishai Abrahami: Well, I think that there's a few factors that play for us.

Today, we are the largest platform for self-creators, right. And I think that self-creators are people that build and manage their own website. And I think that every year, you have more young people that are really being exposed to technologies and feel very comfortable with technology and this grows as a percent of the population, those are self-creators. A lot of them want to be the one who controls their destiny, their marketing and their website. I think that trend just by itself, will continue to make our markets grow on the self-creators.

We see massive growth in partners and agencies that make websites for others. And we started to market Wix to that crowd about a few years ago and we see a massive growth there. We disclosed that as we've shown. And I think continued product innovation, right. The biggest barrier of when people use Wix is if they can do it in Wix, they'll do it in Wix, if they can't, they will not. I think we have been consistently proving over the years that we are really good at that. So, we continue to innovate and continue to add functionality. And I think by doing that, increasing our market size.

Joe Pollaro: So, I want to talk a little bit about the competitive landscape. So, we've had many different competitors over the years. How do you view the competitive landscape today and what are you seeing in terms of any changes in market share during this time?

Avishai Abrahami: Well, we don't see any significant change in the market share – in the market, there's no new competitor that takes big market share or growing very quickly. Mostly SaaS website builders are still growing faster than anything else. And pretty much in every metric that they are leading the growth in the category of website building or content creation. Within this category of SaaS website builder, Wix is growing the fastest. In fact, this quarter, we added close to double the number of net new subscriber as the next closest competitor. So, I think we're growing very quickly, right, in the website builder and SaaS website builder. And I think, again, the key foundation and looking (06:11) functionality for small businesses to move online. And historically, and I think it's going to continue. We are innovating faster among our peers.

Joe Pollaro: And I want to touch on online commerce, something that's obviously an area of growth for us. It's clearly slowed here after accelerating a lot during COVID. But we benefit from a horizontal platform. So, can you talk a little bit about why that is a benefit for us rather than being just exclusively for one type of vertical?

Avishai Abrahami: Yeah, of course. Well, we've seen slowdown in online shopping, right. And we see it all around, right. And we saw it on Wix, but we saw it on Amazon, Shopify, PayPal and pretty much everything that has online shopping. I think it kind of makes sense if you think about, right, for the last two years, we've been locked in the house and now, we all get a feeling that we got this free get out of jail card and we actually go out and do shopping. I find myself doing shopping that normally I would do before COVID on the Internet and just want to be out in the fresh air.

And so, I think that is a big contributor to the slowdown in commerce. I think lack of manufacturing in China and shipping and rising inflation, rising energy prices, war in Ukraine, all of those generating additional strains, all of those combine to slow down e-commerce.

I also think that most of those are temporary, right? China will open. The war, hopefully, will finish. Hopefully, no new wars are coming. So, I think that's something we've seen in the regular commerce. However, Wix is very resilient, we have a lot of different things that we do in terms of commerce

and of course, products like bookings, events, travel, scheduling and those are less affected. And we can see that – I think the sophistication of what we offer, also gives us stability on the long term.

Joe Pollaro: Fantastic. So, I want to move over to some financial topics now, Lior. Let's start with 2022, the rest of this year. Can you walk through the expectations that we provided this year for the rest of 2022?

Lior Shemesh: Yes, sure. So, if you guys remember, at the beginning of the year, we had thought we'd be at around 20% growth on a year-over-year basis. Actually, excluding the impacts from the headwinds, and Avishai spoke about it, our revenue growth would have been 20% year-over-year. So, for Q1, we grew 14% on the back of a 41% growth on a year-over-year basis. And some of the headwinds that we actually see result from slower payments as a result of lower GPV from the slowness in growth in e-commerce.

And again, Avishai spoke about it a lot. Weaker top of funnel and changes in FX rates which by the way mostly affect the second half of the year. We also see a higher level of uncertainty than earlier in the year, obviously because of the overall environment in the world. But that said, we are almost halfway through the year. So, we are also seeing a stable conversion and assuming that stability continues, we expect revenue growth of 10% to 17% for the full year. I think that it's also important to mention that without the headwind from Russia and the changes in FX, revenue would have been 12% to 15% on a year-over-year basis. The fundamentals of our subscription business remain very strong with consistent conversion rates and retention rates.

Joe Pollaro: Okay. We also mentioned in our materials that we adopted a plan that was approved by our board to reach 20% free cash flow margin in – by 2025. I know we're going to talk a lot about this at the Investor and Analyst Day on Thursday. But just briefly, give us a preview of how we're going to get there.

Lior Shemesh: Yeah. So, Joe, this is something that we're very excited about because as you know, we invested a lot about the new initiatives in the last three years. We see the fruits of it, but we also start to see the leverage from those investments. So, we do expect to generate about 20% cash flow margin by 2025, mostly driven by the continued profitability of self-creators. We're actually going to show you on Thursday how profitable this business is and leverage from partner business as it scales up. I think that we all saw the growth on a year-over-year basis of partners. So, we believe that this is something that will continue. Our self creators business is already at this high

level of profitability. So, we expect it to continue. And as our partners business scales, we'll see increased margin, which also drives margin expansion for the overall business. So, most of the leverage is actually going to come from the partners business. We will share more information around this on the Analyst Day. In general, you should expect about 5 points of free cash flow margin expansion every year.

Joe Pollaro: Okay. A couple of topics I know investors are going to be focused on with our results, gross margin. So, how our gross margin is going to progress for the rest of this year?

Lior Shemesh: Okay. So, I'll try to explain. At the beginning of the year, we did expect higher revenue growth, which would have caused Creative Subscription gross margins to increase in 2022 versus 2021. So, despite the macroeconomic headwinds, we remain committed to driving profitable growth, and margin expansion. At the high end of our guidance range, we anticipate Creative Subscription gross margin will modestly increase in the second half of the year versus Q1, and that Business Solution gross margin will increase for the full year of 2022.

If we are closer to the lower end of the guidance range, we expect Creative Subscription gross margin to be flat through the second half of the year, and Business Solution gross margin will see an increase for the full year. So, to summarize it, in either scenario, Creative Subscription gross margin will be at least flat through the year, and Business Solution gross margin will increase versus a year ago.

Joe Pollaro: Okay. And do we still expect 5% free cash flow margins in 2022? And just on top of that then, can you explain the bridge from the current free cash flow margins that we're at to the 8% to 10% free cash flow margins we expect in 2023?

Lior Shemesh: Sure. So, while we have undertaken some actions already this year to reduce ongoing operating expenses, revenue growth is a bit lower than we had anticipated through the headwinds that we spoke about before. If we're at the high end of the revenue guidance range, we will definitely have 5% free cash flow margin. If we are at the lower end of the guidance range, we may not reach the 5% margin. That being said, free cash flow will absolutely be positive. Into 2023, we will see gross margin expand in both Creative Subscriptions and Business Solutions. Importantly, we have significantly reduced the pace of hiring and additional investment. But we do observe a full year of those costs in 2022 from hires in 2021. Despite that impact into OpEx

in 2022, you will see leverage in 2023, which will bring us to approximately 8% to 10% of free cash flow that year. And as I mentioned before, you should expect to have about 5% improvement in free cash flow every year from now until 2025 where we get to the 20% of free cash flow.

Joe Pollaro: Okay. So I just want to kind of summarize this to recap. So, the key takeaways here are that we are absorbing a full year of costs from our hiring activity in 2021 this year and that's going to be a drag on margins this year. But we're going to see benefits from slower hiring in 2023. Additionally, we're going to see benefits from margin and gross margin expansion in Business Solutions, and that's really coming from efficiencies in hosting and just payments continuing to scale and additional revenue growth, right.

Lior Shemesh: Yes, exactly.

Joe Pollaro: Okay. So, Nir, let's move on to partners, another big growth area for us. So, this has become a larger part of our business. And I know that the team has spent a lot more time investing in this effort. Why is partners the right direction for Wix and how do you think it shapes the company over the next several years?

Nir Zohar: Sure. Absolutely, Joe. You know, we've spent a decade basically investing into a product and a brand around this easy-to-use affordable platform that is serving at least at the beginning, first and foremost, the people we call self creators, the people who come to build a website and a business for themselves.

And over the years, as that business evolved into a very big and healthy business, we also figured out that there's a lot of people coming to our platform, but they're actually using that as what we call partners. They are building websites for someone else, whether it's like an independent designer or agency of any kind or even bigger companies. And it was very evident for us a few years ago that this is another path of investment that will take us to kind of the next level of growth in our business, because it's another segment of our business that is probably at least as big as the one that we're serving – we've been serving for a while and probably even much larger.

So, it requires an investment understanding how to expand their brand to also include what they're looking for, which is more professional services and something that that is – that feeds a professional. And we started making

those investments under the understanding that this can be another major driver for us in the years to come.

We always knew that it's going to be a multi-year effort in terms of both the perception and the brand building and also on the product side. But I think that first of all, it's already paying off. It's growing on its own very, very fast, about 41% year-over-year recently. If we look – if you look at the cohorts of the partners versus the cohorts of the self-creators, those – the bookings retention there is 3 times more than what we've seen on the self-creators. That's big. And naturally one of the key things what I wouldn't want to try to do on Thursday on the Analyst Day is to kind of separate and give you more color on what is the difference between these two segments – different segments of our business.

Joe Pollaro: That's helpful. So, you've met with investors a lot here in the last couple of months, as you normally do. What do you think is most misunderstood right now by investors about this partners' effort?

Nir Zohar: Well, I think, when we just started talking about partners a few years ago, I think some of the investors thought that there's going to be kind of an immediate result where we knew that it was going to be a multiyear effort. And, a lot of our product strategy was connected to that. What we've been obviously releasing, like Wix Code, which was great for the self creators, but also was something that was very important for the partners in order to be able to create websites that are more complex and cater for specific needs of specific clients. Editor X naturally, which is an editing environment for professionals, the account management team that we built in New York in order to support the activity with the partners. So, we knew it's going to be a longer thing. I think that over the years, there's a little bit of kind of a gap between what the investor community is understanding. First of all, is about the effort needed. Even though we did create some specific things for the partners, the vast majority of our tech stack, the vast majority of what we do serves both the self creators and the partners. So, when you think about the investment, when you think about our attention as the management and where we're headed we don't have to really separate between completely different businesses, which are pulling from different angles. I think there's also still a little bit of a misconception about understanding fully why this market segment is so important and how are we going to keep on running the core healthy veteran business segment of the self creators versus the partners.

But I do believe that over time, as we are starting to see more and more returns coming from partners, there's going to be a convergence and alignment between what we see and why we were so excited about it and how investors think about it. And we believe the big part to what we can do on the first day is to try and really kind of tell the story of these two segments and give that kind of clarity to our investors and shareholders.

Joe Pollaro: Okay. Let's zoom back in to the quarters here. Obviously, there's been some uncertainty here in the first quarter as we've talked about. Can you describe just right now our overall cohort behavior and what we're seeing?

Nir Zohar: Yeah, absolutely. And obviously, both Lior and Avishai spoke about this kind of reduced demand at the top of the funnel that we've seen in kind of the last few quarters. But when you look at the behavior itself, once people come in, once they're within the users within the cohort, we see a very stable behavior. It's pretty much the same conversion rates. It's pretty much the same retention rates. It's actually a bit of a higher average revenue per subscriber. And the overall, I think, of all of the cohorts together is still expected to generate almost \$16 billion of revenue in the next 10 years.

Joe Pollaro: Okay. And just on cohort, I mean, we spoke about this last quarter, but I think it's worth emphasizing again. So, given the strength and the consistency in the cohort performance, can you explain how the large cohorts from 2020 and early 2021 are impacting our growth now and through the end of this year, and then, how we lap that in 2023?

Nir Zohar: Yes. Absolutely. So, you have to kind of go back in time a little bit. And when you think about it sometime in Q2 of 2020, we started getting these, let's call them the COVID cohorts, the ones that came once people started getting locked down in their houses and the demand for being transactional and moving businesses online suddenly skyrocketed all at once. And these cohorts were massive. It lasted throughout 2020 and into 2021. And when you compare the size of those cohorts to 2019, they were so much bigger.

By the way, they also behaved better. I'm going to touch on it because that behavior kind of outlasted the subsiding of COVID. But when you think about from a mathematical point of view, you had these massive amounts of subscriptions in very large cohorts of 2020 or 2021. And when they started to renew going into 2022, the rates were similar, but the absolute numbers of cancellations were naturally higher. And this is behavior that makes perfect

sense, and it will overlap for a while and then it will subside. It's affecting our net subscriptions, but we expect it not to last for much longer.

And I think for us one of the exciting things that in those COVID cohorts, we've seen a much higher intent towards the business website. So, we've seen an adoption of higher price packages, which was the business subscriptions. We've seen a higher GPV and better conversion and those – that general behavior is – even though the new cohorts are back to kind of more normalized sizes, we're still seeing that kind of behavior which we deem is a very good sign and obviously that delivers the value, which continues and will contribute to that \$16 billion of revenue over the next 10 years.

Joe Pollaro: Okay. Great. And lastly, before we wrap up our portion and open the call up, I just want to circle back and get your view on Lior's commentary on free cash flow. And as you said, we're going to dive into this more on Thursday, but give us more insight into profitability and the way that you all are managing cash flow.

Nir Zohar: So, as I said, Joe, we're going to go much deeper into it on Thursday and actually break apart the actual numbers so it will be clear. But self creators is really a big margin business segment for us. It's highly profitable from a cash flow standpoint, which makes a lot of sense. And I think it's also important to remind everyone that we have managed Wix towards being cash flow positive for a long time now. We've been cash flow positive for seven years now. We're going to be cash flow positive in 2022, and we have no intention of changing that ever.

So, we have this already one very big segment that is operating and generating at high margins. And we have another segment, which is the partners which is still operating at lower margins because of the more recent investments we did into it. But we believe that those are going to also increase as we go into 2023 and beyond. And then, we're just going to see a much stronger consolidated cash flow altogether. And our plan on Thursday is to actually try to provide a table tying those two segments separately so it'll be very clear to understand.

Emily Liu: Great. Thanks. Michelle, you can open up for questions now.

Operator: Thank you. [Operator Instructions] And our first question comes from the line of Elizabeth Porter with Morgan Stanley. Your line is open. Please go ahead.

Elizabeth Porter: Hi. Thank you so much for the question. First, I just wanted to ask on the top of funnel engagement. It sounds like the fiscal 2022 guide is more a function of being further through the year versus seeing an improvement in demand. So, can you just add some color on what you're seeing in the top funnel engagement? How has it changed versus last year, and any comments through April? Thank you.

Avishai Abrahami: Of course. I think that – so we started to see a slowdown, right, in Q2 last year and then things started to stabilize. And we mentioned that actually towards the end of the year, we started to see slow improvement. Obviously, this year, as things got less stable, right, with the war, and inflation, and other factors, we saw a small decrease but now, it is again consistent, so we don't see a decrease. We see a new steady state.

The way we think about it is that we don't know how to predict when this Internet slowdown, Internet recession, right, will stop. We don't try to predict that. We didn't assume that in guidance, but I would say that we would assume that end of the war in Ukraine and probably opening of China again to manufacturing and delivery will probably be big factors of that. So, assuming that those things will change, we're going to see improvement. But until then, we like to assume that it's a steady state because this is what the data is showing us.

Elizabeth Porter: Great. And then as a follow-up, I wanted to ask on the price increases. Can you provide any color on just the magnitude and when we could see it start to flow through the revenue impacts? And just given it's the biggest change in 2019, can you just quickly walk through what happened in 2019 in regards to the magnitude and any impact on churn? Thank you.

Lior Shemesh: Sure. Hey, Elizabeth, it's Lior. So, as you mentioned, back in 2019, I think is the last time we did a significant price increase. As the price increases roll over through the renewals and subscriptions, it takes time to take full effect. And in fact, we stopped it at the beginning of 2020 because when COVID started, we felt uncomfortable continuing with those price increases. That being said, we always continued and always do continue to test different prices in different geographies to understand exactly what is the sensitivity to prices are and what should be the best one, the best price for each geography. End of 2021, coming towards 2022, it was very clear to us that it's a good opportunity in terms of what we're seeing from our test results to start testing again in a more major way and going to a price increase which we enacted in 2022. It's currently in place in the US and Europe and we obviously will extend it to other geographies based on results. It's just going

to roll out. The impact, I think, in 2022 is not significant. I think most of it is going to be felt after. The tests show us that it creates a long-term increase in cohort's value and therefore we do it.

Elizabeth Porter: Got it. Thank you.

Operator: Thank you. And our next question comes from the line of Ron Josey with Citi. Your line is open. Please go ahead.

Ron Josey: Great. Thanks for taking the question, guys. Maybe I wanted to follow up a little bit more on top of funnel, Avishai, but focus on conversion, retention rates, and I think you said we're steady for the past year, but cancellation rates are rising. Can you help us just provide some more information on those cancellation rates? Are they from newer subs, perhaps from lower ARPS subscribers? Any details on those cancellation rates would be helpful.

And then just on newer pricing or newer packages from newer subs, ARPS continues to improve. Just can you help us understand or talk a bit more about what packages are newer subscribers adopting that's leading to higher revenue and revenue per subscriber? Looking for just product adoption comments. Thank you.

Avishai Abrahami: All right. Thank you. And, Ron, I think we might have been unclear because we don't see cancellation rates rising. We see it pretty much stable. The only difference we do see is that the inflow into the funnel, so the people that joined Wix is actually not as high as we would expect it. Beyond that, conversion rate is pretty much the same. We do show an improvement toward more people are buying business packages, which is part of the reason for higher – driving ARPS higher, but cancellation rate is very stable. Conversion is very stable, right. And the only difference that we see is actually how many people try to build the website on Wix. I'm sorry if there was some misunderstanding while we communicated it.

In regards to driving the ARPS, we see that we have more people to try to build business, e-commerce, scheduling, things that require a higher subscription. So, that's one side of it. The other side of it was, of course, we have payments as part of it, right, obviously, because it gives us part of the revenues generated. And the last part is that we see more of the Business Solutions being consumed by customers. So, payments, Ascend, Facebook Ads and stuff like that. So, those are the reasons for the higher average revenue per subscribers.

Ron Josey: Got it. Thank you, Avishai.

Operator: Thank you. And our next question comes from the line of Ygal Arounian with Wedbush. Your line is open. Please go ahead.

Ygal Arounian: Thanks. Good morning, guys. Just one more on pricing because we're getting a decent amount of questions on this already this morning. Just, can you compare what you're doing now to what you did in 2019 a little bit more color? I think, in 2019, there were two phases. One of them was getting rid of your lowest priced tier. And then I think in the second round, you're repackaging products. Is this more of a straight price increase or are you doing anything similar to that this time as well? Then you saw subs, the net additions kind of slow as you were doing that. Is that something you expect to happen this time as well or is it different this time around?

Nir Zohar: Hey, Ygal, it's Nir. So, in terms of what you were referring to in 2019, actually, the part where we removed the low priced package was back in 2018, I think. So, it wasn't part of the 2019 change. The 2019 change was a more straightforward increase in price like you referred to. And what we've done now is similar to that to 2019. In terms of effect on net additions, yeah, there will be some impact. There always is. Because when you test pricing, you're basically – you know that there would be some impact for people who are very highly sensitive to the new price. And you're trying to balance it. So, the overall financial impact will be positive or even significantly positive between what you're losing on conversion to what you're gaining in terms of the higher price point. Naturally, we only continue forward with new prices when we test, and we see that that actually makes sense. So, we will probably have some impact on net additions.

Ygal Arounian: Okay. Helpful. Thanks. And then not to front-run Thursday too much on the free cash flow guidance. But first, any more color you could share on the difference between the partner profitability and the DIY profitability in terms of magnitude or anything else that's helpful for investors? And then, understanding better revenue growth leads to better leverage and you're going to let the head count growth kind of roll through. What are the cost areas are there? Maybe specifically on the marketing side that kind of build through from where we are today to the 20% margins? Thank you.

Lior Shemesh: So, with regard to the first part of the question, we are going to provide a lot of details on Thursday, talking about the different segments and the related costs and so on. But, I can tell you that the self creators is at what

you expect in terms of long-term profitability from a SaaS business. So, we are going to show it on Thursday. I think that it will be very, very clear.

With regard to the target of the 20% free cash flow and marketing expenses and so on, so look, of course, when you are done with the major build-out expenses of a business, you start to see the leverage, meaning that we are going to see every year that the growth of partners is going to be much higher than the growth in cost. So, that will deliver a lot of leverage, which will be resulted in the higher free cash flow. But it's mostly because of that. Marketing is always, we act as a TROI for the top line. But most of the leverage is actually going to come from mostly from headcount and also from infrastructure investment.

Ygal Arounian: Thanks, guys.

Operator: Thank you. And our next question comes from the line of Trevor Young with Barclays. Your line is open. Please go ahead.

Trevor Young: Great. Thanks. Avishai, I think you said that premium subs were up year-on-year in the quarter and it's 2x the growth rate that peers saw. Would you just clarify whether premium subs were actually up Q-on-Q?

And then second question, the shareholder letter alludes to actions taken this year to improve gross margin and reduce OpEx. Could you expand upon that a little bit? And are there any headcount reductions contemplated in that? And if so, what's the order of magnitude?

Avishai Abrahami: So, yes, it is true. I think that this is why the reason that we're saying that we're seeing a steady state with small improvements and that this is something that I think it's probably as a result that Wix going back to the average of Internet growth is now slowing down. And I think this is a part of what we're experiencing now.

Again, it's very hard to tell what happened because most of the trade is outside of our influence. Like the only reason we have some estimations because we talk to customers or people that try to use Wix. And what I did mention is that we are close to 2 times the number of new net adds as to our next competitor, right? So our next competitor in website building, right, in all of the categories of SaaS website building, right, we are growing almost twice as fast. So that was my main point there.

What was the second question? I'm sorry. I missed that. Trevor?

Trevor Young: Yes. The second question was just on the steps you've taken so far this year to improve gross margin and reduce OpEx. Just could you expand upon that a little bit?

Lior Shemesh: Sure. So, look, this year we started, obviously, when we started to see the slowdown. So, we reacted. Some – obviously, some of the reaction is mostly – is something that we do or plan to do for a long term. Meaning, for example, not hiring as much as we did last year, but that was always part of the plan. We would try to finish with the most of the buildout of the business. We are still going to hire, there's no doubt about it, but obviously, it will not be at the same pace.

The second thing is about a lot of benefits that we see in infrastructure actually leading to a higher gross margin. Third thing is about payments scaling up. So, we see also better margins around it. And obviously, you have all the related costs, which – when you have less demand in the Internet in terms of traffic. So, by definition, you have less marketing costs as a result of that. Remember that it's always about the TROI. So obviously, we are reacting according to that.

So, everything together, we manage to reduce the operational cost quite a bit this year, meaning that despite of the headwinds that we see, if we hit the high end of the range of what we provided, we're still going to be at around 5% of free cash flow this year.

Trevor Young: Thank you.

Operator: Thank you. And our next question comes from the line of Matt Pfau with William Blair. Your line is open. Please go ahead.

Matt Pfau: Hey, guys. Thanks for taking my questions. I wanted to ask on the top of the funnel activity. Obviously, an improvement in the macro would help out there, but anything you guys can do on at your end or that you're contemplating to help out the top of the funnel activity and get that 50% of SMB set that still aren't online to move online? Thanks.

Avishai Abrahami: Yeah. So, I think that there are a lot of things we can do, and we're doing some of them. First of all, it's a lot about marketing and adjusting marketing to the right period, and the way the messaging should be done, so this is the first thing. The second thing is increasing the availability of the product in different places, and this is something we work on.

So, the more channels we have. So Vistaprint is one example. LegalZoom is another one, but also allowing us to market like we couldn't do marketing for Wix shopping cart three years ago and now we can, because it's a good product. We couldn't do marketing for Wix scheduling and now we can.

So, those are some ways we can increase our exposure. Of course, there is always a limit. Because if the market slows down, it will affect, no matter how good your marketing is and how agile you are, with product development. There will be some effect to that. But I think that I'm very confident that if we are in a new status quo, and this growth rate of the Internet, we stay consistent, and then we're still going to be able to achieve a much more aggressive goal in the next couple of years.

And we're going to show you that in the Analyst Day, but a lot of it really is just about the thing I mentioned, smarter marketing, expanding product capabilities which allow us to address new markets, and channels. A lot of a ways to go after new markets.

Matt Pfau: Okay. Great. I wanted to follow up on e-commerce. As you pointed out, you have exposure to a lot of different areas there. What are you seeing in the parts of your commerce business that are more related to in-person activities? Are you seeing an uptick there? Is that portion performing better than the e-commerce segment that you pointed out?

Avishai Abrahami: Well, yes. Some of them do. Some of them are still very slow. Travel is still very slow, but we do see that that Events are back. They're still not where they should be. So, I think there's still a lot of room for improvement there. And, obviously, commerce has slowed down dramatically.

I think we're pretty much in line to the average of what everybody's seen in the shopping cart, scheduling, meetings. We're also seeing that starting to recover. So, this is an exciting thing for us. During COVID, one-on-one meetings and group meetings were going down and now we're seeing that again going upward.

Matt Pfau: Great. Thanks, guys. Appreciate it.

Operator: Thank you. And our next question comes from the line of Naved Khan with Truist Securities. Your line is open. Please go ahead.

Naved Khan: Yeah. Thanks a lot. So, one question on payments. If I just run the math for Q1, it looks like your take rate is like 1.4% blended. And I'm just curious, how we should think about that as we go through the year? And then the other question I have is just on the current commentary versus the one that Lior, you gave on the fourth quarter call. You said you expect growth will accelerate through the rest of this year. And even if I adjust for FX for second quarter, it's not. So, is that decel just because payments has slowed? Just kind of run us through the math there. Thank you.

Nir Zohar: Hey, Naved. It's Nir, I'll take the first part of the question and then I'll hand it over to Lior. So, in terms of payments and the take rate, yes, we've seen that increase, but I think going forward, throughout the rest of the year, I would say that expectations are that it should be roughly flat throughout the rest of year. Lior, you want to take?

Lior Shemesh: Yes. So, with regard to the growth of the second half of the year, so, obviously, yes, I mean, we do see the impact of those headwinds that we talk about. And they have a big impact on the second half of the year. But let's also bear in mind that most of the FX effect is actually in the second half of the year. If we're actually going to hit the high end of the range, so that the growth in the second half of the year is going to be actually higher than the first half of the year. So, this is something that we also need to take into consideration.

And obviously, seasonality, usually first half is better than the second half. That said, there is a lot of uncertainty. We provided a very wide range where usually we don't of about 3%. I mean, think about it, it's almost \$50 million, but that just reflects the uncertainty that we see. But, on the other end, we are halfway through the year. So, it just makes sense to provide guidance the way that we know right now. But certainly, there is a lot of impact of the headwind over the second half of the year.

Naved Khan: All good. Thank you.

Operator: Thank you. And our last question comes from the line of Andrew Boone with JMP Securities. Your line is open. Please go ahead.

Andrew Boone: Hi, guys. Thanks for putting me in. Can you talk a little bit about the linearity in the quarter for Europe? How big of an impact was Ukraine results there? And then secondly, the LegalZoom partnership sounds exciting. Can you talk about any holes that you feel like you have in terms of

your partnership strategy, in terms of distribution? Where are you investing there and what can we expect in the future? Thanks so much.

Lior Shemesh: So, Europe impacts, the euro impact from Ukraine, you're talking about the impact from the Ukraine-Russia or just Ukraine? I'm not sure I understand the first question.

Andrew Boone: Broadly speaking, as we think about 1Q and as we head into April and May, did you guys see a substantial slowdown in Europe as we got into the back half of February, March, and April, May? Like can you just help us size the impact of the war within that region? Does that make sense?

Lior Shemesh: So, yeah, definitely we see slowdown in Europe. I think that is very similar also to the US, even slower than the US. But yeah, definitely we see a slowdown in Europe.

Nir Zohar: But I'm not sure we can tie it down to the war necessarily, right.

Lior Shemesh: It's hard in a way to also have an impact.

Avishai Abrahami: It is hard to differentiate between both.

Lior Shemesh: Yeah.

Avishai Abrahami: While we've seen a few impacts, right. Of course, this first one was that we have about almost 1,000 people working in Ukraine. We had to do a lot to help them and evacuate them from Ukraine, mostly to Poland. And then the other thing, of course, it did some slow down to warm up and product delivery, not massive because most of them went back to work, right, when they could. So that is saying a lot on their mentality and their strength to do that. We saw a slowdown, of course, in Europe as inflation drove prices higher and the uncertainty. And so, we saw that.

And the last thing was FX, right, which is, of course, when you sell in euros and you count profits in dollars, that had an impact. Overall, I think that if you look at the impact of the war, we had about 1% impact because we stopped business activity in Russia. So that was about 1%, right? And we had 2% more coming from FX from – and the kind of like it's a bit harder to estimate what happened in terms of acquiring new businesses. But I would say that it's also about between 0.5% or 1% that came from direct effect of demand in Europe because of the war.

Nir Zohar: In terms of LegalZoom again, obviously, we're very excited about it. As the Vistaprint deal is maturing into a reality and we're starting to see the beginning of traffic coming from there, obviously striking another very big deal with another fantastic company like LegalZoom is something that we're very excited about. And I think, we're working and strategizing how to continue bringing like those big-size deals to the table while continuing to, by the way, also closing a lot of smaller deals that are less – not get to the same level of, I would say, don't get the same exposure as something as big as LegalZoom.

I think that in terms of distribution, there's always things to improve obviously, but we are covering many, many areas. We are strengthening the team there all the time. And I think that also the response time and our ability to really get deals done has improved significantly and now is really a timeline that I'm very happy about. So, I think this is another great area of our business that is growing and maturing.

Andrew Boone: Thank you.

Operator: Thank you. This does conclude today's question-and-answer session and I would like to turn the conference back over to the company for any further remarks.

Nir Zohar: Thank you. So, just before we go, I wanted to obviously thank everyone for being with us today, and we would really, really hope that you will also join us this coming Thursday. I think it will be a great review and much detail of this plan. We're putting in place a much better understanding of how we think about our business in terms of those two core segments of the self creators and the partners, and also the kind of the path for the 20% free cash flow margin by 2025 that Lior mentioned before. I'd love to see you there and to talk some more about it. Thank you, everyone.