

Wix.com Q1 2018 Earnings Call

May 9, 2018

Operator: Good morning. My name is Kelly, and I will be your conference operator today. At this time, I would like to welcome everyone to the Wix.com 2018 First Quarter Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]. I would now like to turn the call over to Maggie O'Donnell, Director of Investor Relations.

Maggie O'Donnell, Director of Investor Relations, Wix.com Ltd.

Good morning. Welcome to Wix's first quarter 2018 earnings call. Joining me today to discuss the results are Avishai Abrahami, CEO and Co-Founder; Nir Zohar, President and COO; and Lior Shemesh, CFO.

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 the 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. You can find all reconciliations between our GAAP and non-GAAP results in our press release, presentation slides, shareholder update and our Interactive Analyst Center on the Investor Relations section of our website, investors.wix.com. I also want to highlight that we will hold our Analyst and Investor Day on June 5 in New York. The event will be webcast and we'll post the webcast information on IR site. While space is limited, if you are interested in attending in person, please e-mail ir@wix.com.

Now, I will hand it over to Avishai, who is going to say a couple of words about the quarter. Avishai?

Avishai Abrahami, Co-Founder, Chief Executive Officer & Director, Wix.com Ltd.

Thank you Maggie and good morning everyone. Thanks for joining us today.

We had an amazing first quarter at Wix, which is a very strong start to the year. We again beat our expectations for both collections and revenue. We reported free cash flow of 21 million dollars – the highest ever – as we increased leverage our business model. Our strong financial results continue to be driven by our focus on product development and efficient marketing execution.

We also have seen impressive conversion and retention in our cohorts. We added 231,000 subscriptions this quarter, the largest ever for a quarter. When you look at the Q1 2018 user cohort, it is the largest number of subscriptions ever in a first quarter. For every 100,000 subscriptions we add, we estimate future collections of more than \$165 million. So we believe that this new cohort will generate over \$370 million in collections over the next eight years, at an 80% gross margin with very little additional marketing. This is the result of the value that our users see in our products and the benefits of our business model.

This was also a very strong quarter for product development, as we have expanded new product offerings and continued with improving existing products. Specifically, Wix Answers is a product that we developed in house to support our users. Other companies were asking us if they could use it, and the initial feedback was great. So we decided to make it available externally. This product shows our strength in R&D as we created something for our own use and now can offer it to others.

Also, we continue to see great success with Wix Code with increasing numbers across the board. Every day, developers and designers are using many of the features of Wix Code in many different ways, creating advanced websites and applications. We have built a strong community of users and are constantly incorporating their feedback as we release new features and functionality.

We are very happy with the strong start to the year and I continue to be very excited about the remainder of 2018.

With that, I am going to hand it back to Maggie.

Maggie O'Donnell – Wix.com: Thanks, Avishai. Please everyone just limit yourself to one question so that everyone gets a chance to ask a question. Can we have the first question please?

Operator: Your first question comes from Jason Helfstein from Oppenheimer. Please go ahead. Jason, please go ahead. Your line is open.

Jason Helfstein – Oppenheimer & Co., Inc.: Thanks.

Operator: Next question.

Maggie O'Donnell – Wix.com: Let's take the question from Alyssa, KeyBanc.

Operator: Alyssa from KeyBanc. Your line is open.

Alyssa Johnson – KeyBanc Capital Markets, Inc.: Hi. I was hoping you would talk a little bit about Wix Code in the presentation, you talked a little bit about marketing and branding into channels relevant to that audience. I was hoping you could talk a little bit about you know what these efforts look like so far, you know how early you are kind of into that process and you know what specific type of user you're looking at targeting now and how that changes kind of over time?

Avishai Abrahami – Wix.com: So, this is Avishai. I think that if you look at the numbers that we have to do in Wix Code, I think we're very excited about first of all the size of them, right. We have pretty much 8x the users we expected to have at this state, right, which goes to show that a lot of our effort that we're doing today to bring users that are relevant are working very well. Of course, it's a bit of a different crowd, but I think that one of the things that is very great about this crowd is that because they are more proficient in computer usage and they have a high utilization of professional elements on the Internet, it's easier to look at them and to market to them. So, I think that marketing - we feel very confident about what we did there until now.

Alyssa Johnson: Great. Thank you.

Maggie O'Donnell: Thanks. Can we have the next question please?

Operator: Your next question comes from Jason Helfstein from Oppenheimer. Please go ahead.

Jason Helfstein – Oppenheimer & Co., Inc.: Thanks. Sorry about that - multitasking. So, good morning. You mentioned ADI is expanded to non-English countries, can you help us understand what the coverage might be of registered users outside of the U.S. or outside of English countries, and at this point when do you expect to fully finish that rollout? And then maybe you know a second question, how should we think about the free cash flow impact to the Google accounting change

Is this purely a non-cash change or is there anything in the terms of the agreement that have changed that would impact free cash flow? Thanks

Nir Zohar – Wix.com Ltd.: Hey, Jason, it's Nir, I'll take the first question. And I think naturally Lior will do -- will take the second part. So in terms of say ADI, we do not disclose the numbers and the exact roll out plan for competitive reasons. But I can say that we've definitely started to roll it out in the non-English markets, and we've seen results that we are very, very happy with. You know, it's kind of makes sense actually because we've seen great performance by ADI in the English markets. So it makes perfect sense for ADI to also have similar or even

better impact in other markets. Our plan is to continue this process throughout the second half of the year, at least to the major markets that we support.

Lior Shemesh – Wix.com Ltd.: Hi, Jason. This is Lior. With regard to the -- to the Google partnership, so we -- we mentioned back in February when we reported that, that beside of the accounting change there were some benefits as a result of the fact that we got better terms. So obviously, it was already reflected in the guidance that we provided back in February. So this quarter you don't see more benefit as a result of that. It is simply the execution of the agreement.

Jason Helfstein: And then if I could just sneak in one more, could you highlight any product launches year-to-date or conceptually we are focusing on products for the rest of the year? Thanks.

Nir Zohar: Well, you know, we discussed - and Avishai just mentioned this, and I think we discussed this in the slideshow - about Wix Answers, which I think it's a great example of how we turn our proficiency in product and technology to our advantage. And obviously, we're going to continue on evolving and maturing Code, which is a -- which is a big focus in the company as well as that rollout of ADI that I just mentioned before. In terms of new products, yes, we do definitely have plans, but we will not -- we will not disclose them and share them before we are ready to actually do the actual launch.

Jason Helfstein: Thanks.

Maggie O'Donnell: Great. Thanks. Can we have the next question please?

Operator: Your next question comes from Ron Josey from JMP Securities. Please go ahead.

Ron Josey, JMP Securities: Great, thanks for taking the question. So I wanted to ask on the new monetization model. I think you mentioned in the letter, Answers being an example here and basically I think this is a reason why you're no longer reporting the average collections for new subscribers in the U.S., so any insight into these newer models, how you plan to market them, like Answers going to non-Wix users and what more we can expect would be helpful? Thank you very much.

Lior Shemesh: So with regard to the second question about the ARPU - the way that we calculated it in the past. The reason why we provided those kinds of table in the past is in order to show you guys and investors the way that we actually look at our business in terms of newcomers, especially in light of introducing new verticals. So it was important to see the effects of it on newcomers. I think that by now, revenue already started to catch up with that. So it would not be like the best indication of newcomers, but I think that it can give -- can give us a good, kind of a good understanding of the trend. Secondly, we see and we introduced more and more services. We talk about the Answers, which is, it's going to be a freemium model, but we are going to introduce and we already started to do that, more and more added on services and I think that it would be much easier to do it this way, in a simple way, where we calculated ARPU based on total revenue divided by the number of premium subscriptions and I think that it's also going to make it much more easy for you guys to track it.

Ron Josey: Lior, just as a quick follow-up. Can you give us examples of what these services might look like, so I know you talked about newer vertical apps, maybe including G-Suite as example, Answers going to non-subscribers - things along those lines - that would be great? Thank you very much.

Lior Shemesh: So, first of all the Answers not necessarily go to non-subscribers, but Google is a good example to that. There will be obviously more services, which we cannot disclose right now, but I think that more added on services and I think that this makes a lot more sense to do it this way.

Ron Josey: Okay. Thank you.

Maggie O'Donnell: Thanks. Can we have the next question please.

Operator: Your next question comes from line of Nat Schindler from Bank of America. Please go ahead.

Nat Schindler: Yeah. Hi, guys, thanks for taking my question. You continue to grow your fastest rate in North America, obvious answer is to say that's from the ADI being in English language. Are you seeing growth in, for example, the UK that is higher than your European averages because of the ADI? And do you expect as you now expand the ADI outside of the English language that you'll see acceleration to similar growth? And then I have a follow-up question.

Avishai Abrahami: I think that – saying that growth in United States is accelerating just because of ADI, is over simplifying that and I think that in reality I think there's a lot of things that contribute to that - including improving our core products, improving the vertical offerings, adding lot of functionality, and ADI - which is a product that we love and of course it is a big impact. We do however see that – we do see that in England and in other English speaking countries, of course ADI contributes to conversion because of the language and as we are adding and rolling out more languages, we see that contribution coming also from other countries around the world. So I think that – but beyond that I want to say something which is, for me at least is really exciting is that we can see that the growth of the brand is supporting everything, right, and there is such a great traction that we are getting, so many organic ways just because people know so much better that Wix exists, and really what it can do for their business that is – really that's great.

Nat Schindler: So my follow-up question would be, with this fastest growth and accelerating growth in the U.S. where you really have your highest level of competition, have you seen any changes in the competitive dynamic specifically with one of your competitors, Weebly, recently selling to Square?

Avishai Abrahami: So, I think that as for now, no, of course it's a new acquisition. So of course we didn't see any impact from that. But I do want to say again that, I think that the gap between us and our competitors is actually shrinking - it's actually growing. And the amount of competitors we all have is continuously shrinking, right. And you know if I look at the history, right, we used to have Microsoft with FrontPage, Apple with iWave, Adobe with Muse and Kali, Intuit with Homestead, right. And then a bunch of other providers like Vistaprint. There were so many of those right acquisition emerging in this company and all of the products I just named don't exist anymore. They all are gone, right. And so pretty much I think that we've seen another transaction that is happening in this market and I think it's just a testimony to our well-wishers doing comparison to our competitors, right. We pretty much had I think what is it eight times the amount of premiums that they had, right. And we started the same year. So I think that there's a testimony to how good the team behind me is in their execution. Thank you.

Nat Schindler: One more little follow-up, if you look at your 50% growth in the U.S. Do you have an estimate of what the growth of editor software, subscriptions are in the U.S. overall? I mean another way of saying this - are you taking share?

Avishai Abrahami I do from other companies, absolutely. I think that that when we look at the – at the when we started it was more than a – and we look at traditional competitors Squarespace, Weebly and at that time it was also I think a lot of Homestead, Yahoo, Microsoft and it was a – we were the smallest. And I think now we are probably bigger than everybody else combined in terms of growth, and that's my guess, right, most of them and that's my guess, but most of them don't disclose their numbers but the level that we understand. So absolutely I think we are taking a lot of the share.

Maggie O'Donnell: Great. Thanks, Nat. Can we have the next question please.

Operator: Your next question comes from the line of Deepak Mathivanan from Barclays. Please go ahead.

Deepak Mathivanan, Barclays: Hey guys, thanks for taking my question. This is Aki on for Deepak. So question on vertical product adoption. I was wondering if you could give an update on the uptake on the vertical product offering in the last couple of quarters in terms of what are the big verticals for you guys right now? And then specifically on e-commerce, anything you can share there in terms of growth rates that would be great? Thanks.

Avishai Abrahami: And what was the last word?

Lior Shemesh: Growth rate of...

Avishai Abrahami: On growth rate. And do you want to take this?

Lior Shemesh: I think that in terms of verticals, Deepak, we see a much higher adoption actually if I'm looking it on a year-over-year basis, it actually increased by almost 30% on top of last year. And I think that when you look at verticals like bookings, e-comm, video and so on continue to increase and the adoption is actually getting better and better. By the way this is also one of the reasons why we see also increase in our ARPU and also better retention and satisfaction from our customers. And I think that this trend will obviously will continue.

Maggie O'Donnell: Great. Thanks, Deepak. Can we have the next question please.

Operator: Your next question comes from the line of Naved Khan from SunTrust. Please go ahead.

Naved Khan, SunTrust: Hi, yes. This is Nate Mitchell on for Naved Khan. I wanted to ask about your guidance. We noticed that you're raising collections slightly more than revenue. I just want to know what you're seeing that has you doing this? Thanks.

Lior Shemesh: You're talking specifically about the second quarter.

Naved Khan - For the full-year 2018.

Lior Shemesh: So, I think that you know every time that we see an increase in conversion for example, so the collection actually reacts immediately. In revenue, it takes a bit of time to catch up with that, so usually when we see upside, you usually see that more stronger in terms of collections than in revenue, but obviously you know revenue eventually will catch up with that, so this is like the reason, it's – and by the way, it's also about where it's actually going to fall in the quarter. If it's like in the middle of the quarter, so the upside should be the same, but this is more towards the end of the quarter, so obviously the upside on collection would be higher than revenue. This is the reason, but besides this time, it's nothing unusual.

Naved Khan: Great. Thank you.

Maggie O'Donnell: Thanks. Can we have the next question please.

Operator: Your next question comes from the line of Brent Thrill from Jefferies. Please go ahead.

Brent Thill, Jefferies: Thanks. Just on the collections side, you had 39% in the quarter, but you're guiding for 35% or 36% on an easier comp in this quarter yet a tougher comp. Can you just talk through some the puts and takes and you mentioned the World Cup as a Q2 headwind in the shareholder letter. Can you just maybe talk a little bit about the impact of that? Thank you.

Lior Shemesh: Sure. So looking historically usually Q1 is a very strong quarter for us, obviously, we assume that the momentum, the conversion, the ARPU and all the strong KPIs that we had during the first quarter will continue into the year, but the World Cup is a good example of simply uncertainty. We obviously don't want to provide

guidance if we have uncertainty with regard to the effect of the World Cup. So we will have to wait and see and the effect of it will be mostly during June and July. so again, usually the first quarter is very, very strong. We are very excited about the rest of the year. And obviously, we prefer to provide the guidance in a way that we can be sure that this is exactly what is going to happen. Usually when we provided, we provide the best understanding of this is what we have right now, this is what we are sure about and we usually don't want to take risk about guidance.

Brent Thill: Thank you.

Maggie O'Donnell: Thanks, Brent. Can we have the next question please?

Operator: The next question comes from the line of Sterling Auty from JPMorgan. Please go ahead.

Sterling Auty – JPMorgan Securities LLC: Yeah, thanks. Hi, guys. So the 5.9 million registered users in the quarter was flat year-over-year for the first time at least in my model for the first quarter, should we, is there anything to read into that and how should we think about the registered user growth from here? And then on a different topic, the ASC 606 change gave you a couple of million dollar lift to revenue in the quarter Lior, can you just remind us what causes that?

Nir Zohar: Hey, Sterling, it's Nir. I'll take the first half and Lior obviously will take the second half. In terms of registered users, we spoke about this many times in the past that this is not what we optimize for, our optimization in terms of our – our acquisition and the way we spend marketing is towards the TROI. And in fact if you – if you think about it, you know we brought this same size of a cohort as last year, but much better, much better results. And that's because we you know we optimize and we change the mix in order to – to match where is the best place to spend and invest into the best TROI.

For example, so in this, in this cohort alone, we saw an increase of almost 10% in registered users in English speaking countries. So in our minds it is actually something which is, which is a very good indication and we kind of pointed it out in the – in the cohort slide, on the deck, it's the slide number 9. And if you look at it in kind of a multiyear prospect you can see that registered users from 2015 to 2018 grew by 30% while the premium subs in the first quarter actually grew by a 107%, just means that we are getting better and better all the time and the efficiency of our marketing and obviously also as the brand keeps getting stronger and stronger that also contributes.

Lior Shemesh: - Hello, Sterling, this is Lior. So, so, with regard to the change of the – of accounting the 606, 605, the impact is actually coming from – from recognizing revenue on domains once we collect the money. In the past we used to recognize it overtime. For example, if there is domain for one year or two years, so right now we recognize it once we collect it, very similar to the way that we recognize collections, but that was the only change.

Sterling Auty: Thank you, guys.

Maggie O'Donnell: Hey thanks, Sterling. Can we have the next question please?

Operator: Your next question comes from the line of Mark Grant from Goldman Sachs. Please go ahead.

Mark Grant, Goldman Sachs: Thanks. So just want to go back to Wix Code for a second. One of the expectations on our side has been that devs could use Wix Code to do freelance and other work for their own customers and bring those customers into the Wix ecosystem. Is that what you're seeing or I guess said in another way or are you seeing average collections per sub for code users higher than what you're seeing for the rest of the business?

Avishai Abrahami: So yes and yes. But of those answers is yes, but I'll elaborate on that. Yes, we do see that people that are using Wix Code are actually tending to build more websites for other people, more than one project and we see that a lot of them are agencies and a lot of them are just people – that do more projects. Sometimes those are not websites; sometime they will build internal projects for their own company, right. And we've seen that -- that's another growth thing that we're seeing coming from Code, but the answer to both of your question is yes.

Mark Grant: Great. Thanks and then just a quick housekeeping one for me. Can you give us a sense of what the FX assumption is in the collections guidance going forward? We saw a little bit of a tailwind from that in the quarter? Thanks.

Lior Shemesh: Hi, Mark. This is Lior. So, obviously, I cannot prove out of the FX effect going forward, I wish I could, but I can tell you that for the first quarter, the year-over-year impact was about \$4 million, especially from the Euro and the British pound. Going forward, well, I don't know, I think that you know if it remains the same, it's already embedded with our guidance, so let's hope that it is.

Maggie O'Donnell: Okay. Thanks. Can we have the next question please.

Operator: Your next question comes from line of Matt Pfau from William Blair. Please go ahead.

Matthew Pfau, William Blair: Hey, guys. Thanks for taking my question. Just wanted to ask a follow-up on Wix Answers and you know I guess you did mention that the request for the functionality came from some of your existing customers, but as you look out at the financial contribution from this product, is it mainly geared towards more of your existing customer base and perhaps improving retention there by customers adopting more functionality or is it more a tool from a customer acquisition perspective to perhaps bring in customers that maybe, you couldn't previously address because this functionality wasn't there? Thanks.

Nir Zohar: Hey. Hey, Matt. It's Nir. So, first and foremost the Answers, the core of the reason to have Answers is our own. That's the suite we are using in order to support our own customers. We definitely saw that some of our users have usage to it and we're seeing them using it, but I don't think that it's going to be an acquisition channel for more Wix users, you might be surprised, but there's no indication for that at this point. We do believe and that goes to what Avishai mentioned in his opening remarks that, at some point, some of our friends who were running start ups in Israel said, hey, we love what we're using, what is it? And we told them that it's an in-house product and they ask to use that and it kind of a shed light on the fact that companies, whether they are small or midsize, have a use for that specific solution, which is great in terms of the combination of the both the ticketing system and the knowledge base and a connection to a call center and it's all geared up towards you know to scale up in terms of number of agents and number of users and it's geared up for international use. So, there is the potential that that's going to grow as a different kind of a revenue stream. It's hard for me to say by how much, but we think that it's you know there is no extra effort for us to open it up and give that opportunity for it to grow. We will monitor it and obviously if it grows we will report back and share the results.

Matt Pfau: Great. Thanks for taking my question.

Maggie O'Donnell: Thanks, Matt. Can we have the next question please.

Operator: Your next question comes from the line of Tim Klasell from Northland Securities. Please go ahead.

Tim Klasell, Northland Securities, Inc.: Hey, guys. Great quarter. My question has to do around the new subscribers. Obviously, this is new premiums. This is a very good quarter nice performance, but how about the quality of those subscribers? I'm sure you analyze the type of products that they took, you know, maybe the geographic location and what have you, what sort of quality of the subscribers did you sign this quarter? And as

we look back at this in a few years in the cohort analysis do you think this group will perform at, better, or maybe not so good as what we've seen in the past? Thank you.

Nir Zohar: So, it's Nir. I think our belief is that this is a high quality group of users and I think we have the indications of the things we mentioned, right. The higher ARPU, the increased penetration usage of the vertical and the applications, these are all indications to the fact that these people are using more or more of the offerings in our system. I think also that growth in registered users that we saw in English speaking countries that are commonly a more mature market. These are all we believe are indications that this should be at least as good as a cohort in terms of the way that it performs and perhaps even better.

Tim Klassell: Great. Thank you very much.

Maggie O'Donnell: Great. Thanks, Tim. Can we have the next question please?

Operator: Your next question comes from the line of Lloyd Walmsley from Deutsche Bank. Please go ahead.

Lloyd Walmsley, Deutsche Bank: Thanks for the question. This is actually Seth on for Lloyd. Just a follow-up on Wix Answers. So I was just wondering if we can get maybe a little more clarity about how long you were using it internally, how long it took to make an external version? And then also I thought it was a pretty crowded space. So just wondering how you expect to differentiate there and what kind of cost should we expect to maybe get that business off the ground and in ramping further perhaps with the sales force? And then just as a follow-up, is there any other internally built systems that folks have been asking for to be able to be used externally? Thank you.

Avishai Abrahami: So this is Avishai, and thanks for the questions. So how long we used it internally. So I think we use it for about five years to six years and the number one reason was that we needed the functionality and we couldn't find it in other places. I think that in many ways, every space today is a bit competitive, right? But I think that this product really has unique values that you don't see so often in this market and I think that's why we've got such a good traction from people who have really asked to use the product. And so we're very optimistic and I believe it's a fantastic product. We could not have to support so many people at Wix with our support staff without Wix Answers. No, it's really I think that definitely worth a try to anybody who needs a knowledge base and ticketing system. Beyond that, we are not going to put a huge amount of money now into the launch. We're going to do what we always do, start doing marketing and doing more marketing and test. So I'm very I do believe that we're going to be very cautious and treat that very seriously.

Nir Zohar: Okay. Just you also asked about costs to make it available for the public. So it actually was marginal, as we build this as a multi- tool for internal use. So it almost had no additional R&D spend on it and generally this is a small team, that has been developing it, and 100% of the -- of the features and capabilities that are embedded into the system are things that we are using internally. So you would have developed them anyway.

In terms of other services, yes, there are a lot – there's a few interesting things at this stage. We don't have any intention for releasing another one immediately. And we'll only do so I think in a case in which there's a system that is ready to go such as Answers was. We don't want to put an extra effort into systems now in order to make them available. That's not the core business.

Maggie O'Donnell: Okay. Operator we have time for one last question.

Operator: Your last question comes from the line of Jonathan Kees from Summit Insights Group. Please go ahead.

Jonathan Allan Kees, Summit Insights Group: Thanks for taking my question. Glad to make it in. I'll follow instructions and keep it short. I just wanted to get a sense of the marketing spend for the rest of the year. Q1 obviously had Super Bowl and, I know you mentioned about TROI here in terms of your marketing dollars and you

have the world cup which – but this is more in the marketing spend there is that's the thing that is going to be a, a marketing spend for you guys? and there is also other stuff that's for this year that could be opportunities or could be cost centers in terms of marketing spend just – just trying to gauge in terms of the consistency of marketing spend throughout the year.

Lior Shemesh: Sure. So – so first of all it's important to mention that the way that we decide how much marketing to invest is based on the TROI model, meaning that it's cash on cash. And the reason for that is very simple, we determined back in the past that we would like to be at 7-9 months. So – so literally we don't you know provide to the CMO budget only this KPI which is seven to nine months. From my point of view if we can invest \$200 million in a quarter that would be great. But we, based on the model that we have and the leverage that we are getting, because our marketing is invested to bring the new cohorts, right, while all the historical cohort continue to generate more and more cash for us. So based on that we can understand that the overall percentage of marketing or the percentage out of collection will be declining throughout the year and we provided back in February the guidance for sales and marketing which we focus is to be at 35% to 36% out of collection which is a few point decrease from last year and – and this is by the way one of the reasons why we can get leverage on our business model and generate more and more cash in term of the cash flow. So I think that it will continue throughout the year and also next year.

Jonathan Kees: Great. Thank you.

Maggie O'Donnell: Great. Thank you, everyone for joining us today. We appreciate your time and we look forward to speaking with you again.

Operator: This concludes today's conference call. You may now disconnect.