

WIX

May 20, 2024

Q1 2024 Earnings Call

Prepared Remarks

Emily Liu, Investor Relations

Thanks, and good morning, everyone. Welcome to Wix's first quarter 2024 earnings call. Joining me today to discuss the results are Avishai Abrahami, CEO and Co-Founder; Nir Zohar, our President and COO; and Lior Shemesh, our 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 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 materials and in our Interactive Analyst Center on the Investor Relations section of our website, investors.wix.com.

With that, I'll turn the call over to Avishai.

Avishai Abrahami, Co-founder and CEO

Thanks, Emily and good morning, everyone.

We had a fantastic start to 2024 as we built upon the strong momentum and milestones of last year. We exceeded our expectations across many areas of our business in the first quarter by executing on our product strategy, growth initiatives and commitment to balanced profitable growth. As a result, we continue to differentiate ourselves and grow market share as users increasingly choose Wix as the go-to platform to achieve their goals online.

We kicked off the year with strong growth. Bookings in Q1 grew to more than \$457 million dollars, exceeding expectations. Revenue grew to \$420 million dollars, above our guidance. This outperformance drove free cash flow, which grew to more than \$111 million dollars. This is a new high water mark in our profitability journey and is a milestone that Lior will go into more detail shortly.

The strong growth we saw this quarter was driven by improving business fundamentals, which I'll let Nir discuss in a few minutes, and incredible product innovation. In particular, we are seeing remarkable results from the product milestones achieved last year: our leading portfolio of AI technology and Wix Studio.

First, our suite of AI-powered products is performing extremely well. Notably, this quarter, we released the highly anticipated AI Website Builder. This is our cornerstone AI product. It leverages our ten plus years of web creation expertise and unparalleled knowledge base of user behavior. Through a conversational AI chat experience, users describe their intent and goals. Our AI technology then creates a professional, unique, and fully-built out website that meets the user's needs and dreams.

Importantly, the AI-generated site includes all relevant pages with personalized layout, theme, text, images and business solutions such as scheduling, eCommerce, and more. Best of all, these websites are fully optimized with Wix's reliable infrastructure, including security and performance, as well as built-in marketing, SEO, CRM and analytics tools. There is truly nothing like this on the market.

Excitingly, feedback on the AI Website Builder has been incredible. In just the few short months since its launch, hundreds of thousands of sites have already been created using this tool by both Self Creators and Partners. This strong response and utilization is a testament to the depth of our AI expertise and strength of our product team.

We did not step off the gas after this milestone release and recently added more products to our AI portfolio in order to make the site building experience easier and more enjoyable.

In April, we released a suite of AI-powered image enhancement tools that provides users with the capabilities to create professional images on their own. High-quality images are an essential part of a professional website, but often hard to achieve without the help of a professional photographer. Now users will be able to easily erase objects, generate images, and edit them to add or replace objects with a simple prompt - all without ever leaving the Wix Photostudio.

A few weeks ago, we also released the AI Portfolio Creator, which uses in-house AI image clustering technology and the latest AI models to enable users to easily and professionally showcase an online portfolio. This creates a smooth and intuitive portfolio-building experience that generates unique and professional options in moments.

These new capabilities are just the start of a robust pipeline of AI-enabled products still to come this year, including a variety of vertical AI Business Assistants that will be released throughout the year. A couple of these assistants are currently in beta testing and seeing great results and feedback. I can't wait to share these and more. We are seeing tangible benefits from our entire AI offering, particularly better conversion amongst

users into premium subscriptions. I strongly believe that our AI capabilities will be a significant driver of Self Creators growth in 2024 and beyond.

I'd like to finish with an update on Wix Studio, which continues to perform ahead of plan. Since its launch in August, over one million Studio accounts have been created by agencies and designers. The majority of these Studio accounts are created by larger agencies completely new to Wix. This is an encouraging sign that we continue to win market share. Existing professionals are also increasingly using Studio to complement their classic Editor projects with most of our top Partners having built at least one project on Studio.

Moreover, fast conversion of these accounts has resulted in more Studio premium subscriptions than anticipated. This high conversion demonstrates the powerful design, creation and workflow management capabilities that professionals cannot get anywhere else. As a result, we expect the lifetime value of our Partner user base to continue to improve as Partners build more projects on Studio over time. As a reminder, the lifetime value of our Partners is already multiple times higher than that of our Self Creators.

We continue to add new innovative capabilities and improve the Studio platform. In April, we introduced the ability for Partners to sell Studio templates in the Marketplace. This feature enables Partners to market and

sell Studio templates they've created, thus increasing their earning potential while organically fostering the Studio ecosystem. With more new features on the horizon, we remain confident that Studio will be a significant driver of Partners growth in the years to come.

With the momentum we've started this year, I am confident that we are successfully executing on our strategic initiatives and growth pillars. There are many exciting things still to come in 2024 and made possible by the incredible team here at Wix. So, thank you to the entire team for your hard work and dedication to our users.

With that, Nir – over to you.

Nir Zohar, President & COO

Thanks, Avishai.

I'd like to expand on what we've seen in the first quarter in terms of our user cohorts and business fundamentals and explain how they drove our strong results.

Starting with our user cohorts. We are extremely encouraged by the quality of our funnel this quarter, demonstrated by the exceptional strength of our newest user cohort. The Q1'24 user cohort of approximately 4.9 million new users collectively generated approximately \$32 million dollars in bookings in the first quarter. This is 6% higher than the bookings generated by our Q1'23 user cohort in its first quarter despite a slightly smaller base of users. This further underscores the improving fundamentals of our business. The Q1'24 cohort now replaces the Q1'23 cohort as the strongest non-COVID cohort in our history.

As a result, returns on our acquisition marketing investments remain elevated. We continue to sustain a time to return on investment (or TROI) of 4 to 5 months.

At the same time, we continue to see strong performance from existing cohorts as evidenced by the ongoing growth of our Q1'23 cohort, which has generated over \$83 million dollars over the past five quarters. This is

5% higher than the cumulative bookings generated by the Q1'22 cohort in the same timeframe.

The incredible performance of our newest cohort and continued strength of prior cohorts are driven by robust conversion and improving monetization. I'd like to spend a few minutes talking about these business drivers.

First, we have seen conversion tailwinds from the several initiatives we began last year and continue to build upon. These include:

- One: focusing our marketing investment on attracting higher intent users, particularly Partners and commerce users;
- Two: the success of our expanding portfolio of AI initiatives, which we continue to expand; and finally,
- The early outperformance and momentum of Wix Studio, which is driving high conversion and lifetime value of Partners.

As a result, the most recent cohort experienced record conversion. This is a tangible indication that our strategic growth plan is working.

Second, this strong conversion is coupled with improved monetization of both Partners and Self Creators. ARPS is increasing as we expand our

offering and progressively bring on users with more complex needs. These users are purchasing higher priced packages, adopting more business applications and generating more GPV.

As we mentioned in February, we began updating package pricing this quarter for new and existing users. This is part of our ongoing strategy to align pricing with the continuously growing value our platform delivers to users. Our users have historically responded well to previous pricing updates so we knew what to expect going into this one. Nevertheless, I am pleased to share that we have seen better than expected user retention from this most recent price change. This is a driver of our increased guidance, which Lior will discuss shortly.

The combination of steadily increasing ARPS along with strong retention is evidence of our growing value proposition.

Additionally, ARPS benefited from robust commerce growth. GPV in the first quarter grew 14% year over year as larger merchants joined Wix and existing merchants on our platform grew their businesses.

Growth in GPV was coupled with increased take rate. Our take rate improved to 1.58% in Q1, an all time high as more merchants chose Wix Payments. Commerce growth continues to be led by our Partners, who were responsible for roughly half of our GPV this quarter.

We expect GPV from our commerce users to continue to compound and take rate to remain elevated, driving ARPS improvement going forward.

Finally, we also continue to keep a close eye on the macro environment impacting the users and merchants on our platform. I am pleased to say that the solid top of funnel and GPV growth trends we're seeing point to a normal operating environment. The macro has actually been stable and positive from where we stand for the past few quarters. We didn't see any change in Q1. This stability has allowed us to execute on our growth initiatives, which drove the momentum of last year and a strong start to 2024.

The strong fundamentals of the quarter are proof that our marketing strategy continues to work well and the global Wix brand remains strong. We are increasingly attracting higher intent users with greater monetization throughout their lifetime, particularly commerce users and larger Partners. We expect conversion and ARPS to continue to improve as we innovate and grow our product suite to better meet the dynamic needs of our growing base of Self Creators and Partners.

With that, I will now hand it over to Lior to walk through our financials and outlook. Lior?

Lior Shemesh, CFO

Thanks, Nir.

We kicked off 2024 with a very strong start to the year with top-line growth exceeding expectations in Q1, driven by incredible product traction, particularly of our AI offering and Wix Studio, as well as the improved business fundamentals you just heard about from Nir. This was underpinned by a stable and positively-trending macro environment.

Strong growth allowed us to achieve record profitability with free cash flow margin reaching 26% this quarter. As a result, better than expected growth and free cash flow generation put us very close to achieving the Rule of 40 in Q1 and for the full year.

The growth outperformance in Q1 firms up our expectation for accelerating bookings growth in the back half of 2024 as well as anticipated strong revenue growth across both Self Creators and Partners in 2025. As a result, we are increasingly confident that we will significantly surpass the Rule of 40 in 2025. I will discuss this in more detail along with our updated outlook shortly.

Moving on to the details of the first quarter. Total bookings were \$457 million dollars, with growth accelerating to 10% year over year and

exceeding our expectations. Total revenue was \$420 million dollars, up 12% year over year and above our guidance.

Bookings and revenue growth were driven by strong business fundamentals as well as robust uptake of Wix Studio, new AI products and our growing suite of commerce capabilities. Growth is driven by continued innovation to provide the best online creation experience for all users.

Our Partners business continued to build momentum and contributed meaningfully to overall growth this quarter. Partners revenue grew 33% year over year as we experienced market share gains, larger agencies joining the platform and better monetization of our existing professional users.

This was due in part to Wix Studio, which is beginning to demonstrate early top-line contribution as the product continues to ramp and perform ahead of plan. With over one million accounts today and the number of subscriptions exceeding expectations, we expect Studio will continue to improve the lifetime value of our Partner user base.

Total non-GAAP gross margin in Q1 was 68%, which was in-line with our expectation of 68-69% gross margin for the full year. Non-GAAP operating income increased 43% year over year and totaled 17% of revenue as our operating cost base remained stable as growth outperformed. We also

achieved a second consecutive quarter of positive GAAP operating income and remain on track to achieve GAAP operating profit for the full year.

In Q1, non-GAAP sales and marketing expenses grew quarter over quarter to \$96 million dollars as we ramped up investments in Wix Studio as planned. We continued to execute against the streamlined marketing strategy introduced last year, resulting in stable TROI of our most recent user cohort compared to the prior year cohort.

Q1 free cash flow excluding headquarter costs was over \$111 million dollars, or a record 26% of revenue, due to strong top-line growth coupled with steady operating expenses.

I now want to finish by providing some color around our expectations for the rest of 2024.

We expect total revenue in Q2 of \$431 to \$435 million dollars, representing approximately 11 to 12% year over year growth.

For the full year 2024, we are increasing our outlook. We now expect total bookings of \$1,796 to \$1,826 million dollars, or 12 to 14% growth year over year. This is up from our previous outlook of \$1,784 to \$1,813 million dollars. Additionally, we are raising total revenue to \$1,738 to \$1,761

million dollars, or 11 to 13% growth year over year. This is up from our previous outlook of \$1,726 to \$1,757 million dollars.

Importantly, we expect total bookings growth to accelerate in the second half of 2024 to 16% at the high end of our guidance range, up from 15% as previously anticipated. This acceleration is expected to come from both Self Creators and Partners.

Self Creators growth acceleration is expected to be powered by higher conversion and monetization as a result of our AI products. Meanwhile, Partners growth acceleration is expected to be driven by Wix Studio ramping and contributing more meaningful than initially planned. Creative Subscriptions bookings is still expected to accelerate to double digit growth in the second half of 2024.

The success of our AI initiatives and Studio will also benefit revenue, though on a smaller scale due to our SaaS model. We will see a more significant benefit from these dynamics on our 2025 revenue.

We continue to expect non-GAAP total gross margin of 68 to 69% with non-GAAP Business Solutions gross margin to exceed 30% for the full year.

Non-GAAP operating expenses are now expected to be 50 to 51% of revenue for the full year, down slightly from our previous expectation of 51 to 52% of revenue. This decrease is due to expected organic improvement in sales productivity and slower hiring as a result of the efficiency initiatives implemented over the past couple of years. We will continue to gradually invest in our Studio brand as previously planned – this has not changed in our model.

We now expect to generate free cash flow, excluding headquarter costs, of \$445 million to \$455 million dollars, or approximately 26% of revenue in 2024. This is a meaningful increase from \$370 to \$400 million dollars, or 21 to 23% of revenue, as previously expected.

This significant increase in free cash flow is expected to be driven by a few factors:

- First and primarily, our higher bookings expectations;
- Second, more favorable gross margin mix as Creative Subscriptions growth accelerates; and
- Third, the operating efficiencies I just mentioned as well as general working capital efficiencies.

As a result, we are now positioned an entire year ahead of our three-year plan as we did not expect to achieve 25%+ free cash flow margin until 2025.

Finally, we continued to follow through on our commitment to allocate 50% of free cash flow generation through 2025 to share repurchases. Following the completion of our \$300 million plan in February, we recently implemented an additional \$225 million repurchase authorization. Execution against this plan is currently underway.

As a result of this increased repurchase activity and continued share count management, we anticipate to end 2024 with a fully diluted share count of 62 - 63 million.

This anticipated share count along with stronger free cash flow expectations translates to a higher free cash flow per share trajectory for 2024 than previously anticipated.

The great progress we made in Q1 and the improved bookings trend we are now expecting for the rest of the year sets us up for anticipated revenue growth acceleration in 2025. As a result of this broad-based strength and the maintenance of our stable cost structure, we are increasingly confident that we will significantly surpass the Rule of 40 in 2025.

With that, we will now take your questions.