

Nasdaq 45th Investor Conference – Wix Fireside Chat November 30, 2021

Elizabeth Elliott: Good afternoon. Thank you, everyone, for joining us. My name is Elizabeth Elliott and I'm an analyst on the Morgan Stanley software equity research team. I'm very pleased to have with us today at the Nasdaq Conference, Wix's CFO, Lior Shemesh; and General Manager of US Operations and Head of Investor Relations, Joe Pollaro. Thank you so much for joining us, and we're really looking forward to your insights today.

Just as a reminder, we are taking audience Q&A and questions can be submitted on the box in the webcast screen. For important disclosures, please see the Morgan Stanley research disclosure website at www.morganstanley.com/researchdisclosures. If you have any questions, please reach out to your Morgan Stanley sales representative. And with that, thank you, guys, again for joining us today.

Elizabeth Elliott: I think a good place to start for investors that are not as familiar with the Wix story would be to spend a few minutes just describing your business, the product portfolio, end customer and geographic perspective.

Lior Shemesh: Okay. So, first of all, thank you for having us today and thank you, everyone, for joining us. I will try to be very quick about the introduction of Wix. Wix is a web presence creation platform at its core. So basically, people are coming to Wix every time that they want to create what we call their dream online. They want to create their business. They want to create their identity online. And they are using Wix – and we have a few options in order to do that. It starts with the ADI for people that actually don't have, like myself, the best design capability so they can use the ADI and literally create a professional website within a few minutes. People that want to start from a clean canvas or use templates can use the Wix Editor, which obviously gives them much more freedom to create their online business. And then, it goes to the Editor X, which is for more professional people, mostly for people that build websites for others. So, in a way, you can think about it that it's a platform. It's a creation platform that is serving the entire spectrum of people from people that really don't have a lot of understanding or knowledge about design and what does it mean in terms of creating content, to the people that are really professional and want to create a very professional tool for their customers.

We are serving more than 250 million users. It's a huge ecosystem, meaning that every time that people want to build a website, most likely they end up with Wix. Actually, the search for "Wix" is much higher than the search for "website builder". This provides you with the understanding of how strong the brand is. On top of it, it's very important to mention that it's not just for website creation. It's a more professional tool for what we call an operating system. So, it enables you actually to build your business over Wix, to manage your business, and communicate with your customers. And in order to do that, we are providing lots of specific professional vertical tools. For example, tools that help you to build your online store, restaurants, hotels, for musicians, people that are actually doing some kind of clubs or training/fitness. So, it's many, many verticals that we provide actually with the best solution. And whenever they actually come to Wix and build a website and manage their business over Wix, obviously, you know, they are very satisfied from doing that. And what is important to mention is that the evolution of Wix in the last few years came to a point where we would bring in much more businesses.

Today, about 36% of our collections is coming from commerce, and this is something that we evolved into in the last, let's say, mostly three years when we introduced all those vertical solutions like, you know, the online commerce and stores. And it keeps on improving, meaning that we see more and more quarter-after-quarter. We see more businesses coming to Wix and building their business over Wix, and it also makes our KPIs look much different than how it used to be two or three years ago. For example, ARPU went up, conversion is much better. All the fundamental KPIs actually improved also in the last few quarters.

So again, in order to summarize it, Wix provides you with the ability of an operating system for you to manage everything that you want.

Elizabeth Elliott: Awesome. Thanks so much, and, yeah, that point on building not just the website, but managing of a business - this is really important. The majority of the number of businesses out there are these small businesses with little to no IT support, so having that all built in is really, really important for that customer base. When we think about the competitive landscape, we hear other companies Squarespace, GoDaddy. Who do you compete with and when does an end customer decide they want to use Wix versus another provider? What is your competitive differentiation?

Lior Shemesh: Most likely, you know, when the customer wants to build a great website to manage his business, Wix is the best solution for it. You

know about the do-it-yourself and I want to relate, you know, to two different segments.

The first one is everything about the do-it-yourself. Clearly, we are the leading platform. I mean, we've mentioned before that we are serving more than 215 million. So, when people want to build a website by themselves and for their business and to manage their business, they are clearly coming to Wix. I think that, you know, if we look at the last few years in term of our growth, clearly, we're also taking market share from all the other players.

But when we talk about do it yourself, one of the few players out there is Squarespace. I think that if you look at their numbers and our numbers, it is very clear that we are growing much faster on much, much bigger numbers. We also mentioned a few times that we kind of, you know, extended our TAM significantly. Because many, many people who still want to build an online presence go to professionals.

Clearly, WordPress was the leading platform for doing that. After introducing, you know, the Editor X and all the other solutions, where we're providing them the ability, the capability to build websites for others, we see for sure that we are taking market share from the entire WordPress ecosystem. And this is something that's really interesting because, you know, when I think about the next two or three years, definitely I see that these segments will continue to grow. And we mentioned also in the last earnings a few numbers like the increased number of agencies that are working on top of Wix. This is something that we are very excited and happy about.

Now, when it comes to the vertical solution, you might claim that for example, on the Wix DIY stores, we might compete with Shopify or some segments of those customers they have. You know, when it comes to fitness, we are competing with other players like MindBody. But remember, our solutions are mostly designated for the Wix type of customers. So for our type of customers, we are providing them with the best solution. So it's not really competing with them. I don't see us actually also, you know, competing with GoDaddy because remember that people come to GoDaddy looking to buy a domain, not necessarily to buy or to create a website. So we are not competing for those types of customers and actually, many of them end up with Wix later on.

Elizabeth Elliott: Okay. Thank you so much. And you mentioned a little bit that you've, you know, expanded the portfolio. You've really branched out for new channels for the go-to market. What is your growth strategy for the next few

years? And do you have the pieces in place today to execute on that strategy?

Lior Shemesh: Absolutely, I've been with this company for over nine years. I don't remember a period of time when I saw so much opportunity for growth, even with those numbers. And let me try to elaborate.

We are growing. We are still growing in the do-it-yourself segment. And the way that we do it is – it's simple. It's simple for us, but it's the same as what we've done in the last 10 years - just providing a much better solution. And let me give you a few examples. When we first came out with the ADI, we increased the conversion quite significantly. Meaning that for the same amount of users, we were getting much more subscriptions just by the fact that conversion is getting better. Once the conversion is getting better, we can invest more in marketing with the same return on investment simply because we are getting much better dollars for every user that we are bringing.

So, the way that we are actually looking at it and obviously we cannot reveal the plans in terms of the new products that we are going to launch. But clearly, we see that every time that we do that, every time we introduce major capabilities for our platform, conversion goes up. And we think that this is something that is going to continue for the next two, three years at least from what I've seen in terms of the new capabilities that we are going to introduce.

The same goes for the vertical approach. We are investing a lot in some of the verticals like online stores, booking, fitness. In some of these places, we are actually the biggest player over there in terms of those kinds of services and we intend to continue with that investment. And the result of it is getting a much better conversion because think about a fitness trainer. He gets an amazing native application – he can run everything, he can schedule meetings, collect money, manage his customers all over Wix. So, it means that he is getting the best solution he cannot find in any other place. So, obviously, it's increased conversion. And we believe that this is something that is going to continue.

This vertical approach has actually led us to a place where we see that quarter over quarter, also, the ARPU is going up. So, when you think about, and I mentioned before, for the same amount of users, you are getting more subscriptions, but at the same time, those subscriptions are paying more because they are getting more professional solutions. So, we are getting better conversion, better ARPU. It has delivered growth.

The next thing is obviously about what you mentioned about, agencies or professionals building websites for others. We just started it. It's growing very fast. We mentioned some of the numbers, more than 90% growth on a year-over-year basis. And we believe that each of those agencies have the capabilities to build hundreds and even thousands of websites over Wix. So, this is something that introduces a very big potential for us in terms of growth.

Elizabeth Elliott: Great. Thank you so much for that. It sounds like kind of the vertical approach and the agencies and other segments are really kind of the big drivers of forward growth momentum. If we take a step back, one of the big debates has been around COVID. Many businesses had to close their doors and build a website to connect with their customers, which showed really strong demand. And more recently, there has been some variability in the core business and just some concerns of a pull forward. So, can you walk us through the dynamics of the slowdown that we saw over the summer? Importantly, also what has improved more recently?

Lior Shemesh: So, let's start, a few months, a few quarters back. What happened in 2020 - we actually saw a huge increase. People understood that they needed to have an online presence. This view has not been changed. I mean 2020 was a huge, huge year for us in terms of growth. In many ways, it has also had an effect on 2021 because many people are expediting their plans in terms of their business on the account of 2021. And what happened the beginning of 2021, we thought about all the scenarios. We didn't take into account what's happening with new COVID strains like the Delta.

And the people got to a point where there is some kind of uncertainty. And let me give you an example. I have two friends over here in Israel that wanted to open a restaurant. And then, they started saying, "Okay, should I invest right now or perhaps I need to wait a little bit more until everything is going to be clear? Should I invest or should I wait? I'm not sure what is the government is going to do." Look at the recent example of what's happening in Africa. So, obviously, it has an impact. But we believe that this is something that was very temporary in terms of the uncertainty. We already started to see Q3 improving because this is something that cannot last forever. The most fundamental understanding of people I think that they understand that they need to have online presence.

It's very interesting. You know today I read an article at the first page of The Wall Street Journal talking about workers creating jobs to become their own

bosses. And this is something that it's really interesting because it introduced an amazing, obviously, opportunity for us. People change, people change the way that they think about where they want to be, how they want to be and how to do that. Not just about the online presence, but they want to have more flexible capabilities. They want to be their own bosses. So, this is something that obviously is going to impact us positively and the next two years is actually going to show that.

Joe Pollaro: One thing that I think shouldn't be lost is that, as we have said, there are a lot of tailwinds to our business that I think 2020 kind of shined a spotlight on for many, many people. And while certainly, there was a slower period here this summer that we didn't predict as well, our business still grew very, very well over a more normalized year 2019. If you look at our two-year growth stack, in Q3, it was 69% and that's on collections. And if you look at revenue, which kind of removes the noise from some of the B2B partnerships that helped collections this year, the two-year growth stack was 55% over 2019. So we're still seeing very, very strong growth over a more normalized year. In 2019, I think that goes to the tailwinds that Lior talked about and we expect those to continue.

Elizabeth Elliott: Great. And then, kind of digging in to one of those tailwinds a little bit more specifically, just wanted to dive in on commerce. That was up 47% year-over-year. Can you see some of the drivers of that business and how you've expanded the portfolio to meet that demand? And I think investors typically think about e-commerce as being a pretty crowded landscape. So where does Wix kind of stand out among that?

Lior Shemesh: Look, I think that commerce is indeed crowded. But remember, we're getting millions of users every month. Many of them are looking to build a business. And this goes back to what I, you know, mentioned about the article. Let's take, for example, you know, the last Black Friday. The growth was more than doubled over 2019. And there's a few reasons for that - we see that transactions are actually much higher than what we used to have in the past. Meaning that we are growing with our customers, that customers are growing, we are able to actually to bring more large businesses that run more GPV onto our platform.

And the way to do it is very simple, simply because of providing them with a much better product. If you look at the last 12 months in terms of the new features that we launch in terms of online commerce, it was really huge providing them so many capabilities - payment is actually helping, shipping capabilities, drop shipping capabilities, POS. So, I think that they have right

now a very good solution and working with Wix is actually providing them with the ability to do and to run the business over Wix. And it contributed to the fact that we see that online commerce is growing.

By the way, we talk about the last, you know, the last two quarters. Even though we saw less top of the funnel or, I mean, less traffic coming because of what's happening, which is not just unique to Wix, also happened to Amazon and other great companies, we saw that the most fundamental KPIs are actually growing, meaning the GPV was still growing, ARPU was still growing, conversion is getting better. And this is just because of simply a much better product providing much better capabilities to our customers.

Elizabeth Elliott: Got it. And then, the third pillar that you've mentioned is the designers and agencies as a really important channel in Q3 - the number of partners was up about 92% year-over-year. Why is Wix best positioned to win the business of designers and agencies versus peers? And how should investors think about the contribution of this channel to the model?

Lior Shemesh: Joe, do you want to take that?

Joe Pollaro: Sure. Absolutely. So, as you said, we're continuing to see agencies, professional designers come to Wix. This was really something that we initiated about three years ago when we launched what was then called Wix Code, now called Velo. A year ago, we launched Editor X. And these are professional-level products. And what we are aiming to do here is expand our reach beyond just do-it-yourself users. For a decade prior, all we did was focus on users building for themselves and expanding into a new market is obviously not something that happens quickly. But we've made huge strides very quickly because our brand is strong and because these new products are so strong.

I think that what that 92% growth shows is that professionals and agencies are giving Wix a chance, are giving us a try, and that's what we are looking to do. You know the incumbent here is very large and we don't have to take, you know, all of their share or even half of their share to make this become a very large business for us. We compete very, very well with WordPress, which is kind of the largest player here.

We are taking a different approach as a cloud-based platform as opposed to being open source. And that means that all of the hosting and infrastructure, including security, is all handled by Wix. And that makes it a much more

productive, much more efficient process for agencies and professionals to build and manage what they need to build.

And, you know, Editor X and Velo, as I said, are creating a very strong funnel for us. And we think that, you know, in the future and I don't want to make a prediction on when but in the future, we believe that this part of our business will be larger than the do-it-yourself part of our business. Just because most of the websites in the world today are built by professionals and are built by agencies. And we are, you know, heading in that direction.

Elizabeth Elliott: Great. Yeah. That's super helpful. Especially as, you know, every one designer you bring to Wix is building 10 plus websites a year, if not more. Our channels work has suggested that, you know, there is a preference for Wix just on your fast-paced product rollouts and giving a bit of a future-proofed product when they go with your platform.

And just as a reminder to everyone. We are taking audience Q&A and any questions can be submitted via the box on the webcast screens. We'll start to weave those in as they come through.

I want wanted to turn to B2B partnerships. You know, this is an initiative that you started in 2019 but it didn't really start to move the needle until 2021. And what is the overall strategy kind of behind these B2B efforts?

And how should investors think about the contribution to collections going forward, just given that it is a lumpier kind of business, somewhat, that we've seen in the past?

Lior Shemesh: Yeah. So let me try to explain, you know, how we follow this strategy and what's happened. This is first of all, it's not something new. We always work with our partners, our B2B partners, but not in the same scale, obviously. And this is also part of the overall strategy that we have. And let me give you a few examples. The company in Japan, NTT, which I guess all of you are familiar with, you know, started to use Wix, you know, a few years back. Today, NTT growth in terms of collections is 9x in the second versus the first year. So how has that happened?

So, you know, take into consideration that behind every B2B partner, there are users, the same users that we have. It's the same subscription model, meaning that they start to buy and then they renew and then they buy more and then they expand and buy other services like Ascend, like online commerce, like payments. Meaning that it's the same basics or the same

fundamentals as any other SaaS business. It's the same as our customers because in the end of the day, what stands behind them is the same customers.

Vistaprint, the same thing. First of all, Vistaprint is a great proxy to the fact that, you know, they switched their technology and moved to Wix. And you know, it's amazing because it's a technology partnership. Now, think about them as a huge agency and I know we spoke about the agency, but it's one agency, okay, because in the end of the day, they serve as an agency. It's the one agency that is going to build hundreds of thousands of websites over Wix.

So in a way, it actually continues our strategy to grow in the places where people are using Wix to build websites for their customers. And this goes the same for any, almost any other partnership that we sign. I do believe that this is something that is one of our growth drivers. And it will continue to grow also next year, because next year, we are going to have the expansion of those customers that we already signed. But on top of it, we are going to get a new one because we already built quite a large funnel. So, yes, it is kind of lumpy in the very beginning because we just started this, but I think over time that will not be the case.

Elizabeth Elliott: Great. And then, just turning to a little bit more of the financials - the time to return on marketing investment is something that you guys track very closely. And the ratio has weakened a bit, but you're still within your target range. How do investments in some of these new channels like the B2B, the commerce and agencies impact that and what drives your confidence to continue to increase the investment?

Lior Shemesh: So, first of all, it's something that we measure very strictly. In a way, I don't provide budget for marketing. Meaning that from my point of view, they can invest whatever they want. But it's very important to keep in mind that, the return is going to be within our targets. Meaning that for my point of view, they can invest even \$100 million every quarter as long as the return is the same because we don't want to leave those customers. And actually, this is what's happened. If you look over the years and I did mention about the fact that ARPU is going up and conversion is going up. So, from the same dollar that you invest, you get more, so it is allowing us to invest more in marketing. Perhaps the cost per user is increasing, but the TROI remains the same because we are also getting much more from those customers. So, I do believe that this is something that it's going to continue. The B2B, for example, it's a bit of a different model, because there, we are not investing in

marketing, they are doing the marketing, they are bringing the customers, we provide the technology.

The bottom line is actually a bit even more profitable because of that. But this is the way we measure. We measure everything, we measure every traffic, we measure every dollar that we invest, and looking at the return, if it makes sense to us until the point that it doesn't.

Elizabeth Elliott: Great. Our time has actually run up much quicker than I even expected. And, you know, it sounds like there's a lot of really interesting pieces to be watching, whether that's the expansion into the partners and the agencies, kind of the B2B and seeing how the top-of-the-funnel moves as we get into fiscal 2022. So, thank you so much for sharing your insights with us today. And thank you to everyone on the line. You know, please let me know if you want to get in touch with the company or discuss more. But thank you very much for your time and have a great rest of the day.