



**November 10, 2022**

**Q3 2022 Earnings Call**

**Prepared Remarks**

## **Avishai Abrahami, Co-founder and CEO**

Thanks Emily and good morning everyone. Thanks for joining us today. I want to start today's call with a few highlights from the quarter and provide an overview of some exciting new products we recently announced. Nir and Lior will then share more details on our operations and financial results, and then we will take some questions.

Despite continued uncertainty, the strong fundamentals of our business along with great execution led to revenue growth ahead of our expectations and significant improvements in profitability. Revenues in Q3 were \$346 million dollars, or 8% growth year over year. On a constant currency basis, revenues were \$351 million dollars, or 10% growth year over year.

We consider our global reach to be one of our key competitive advantages. However, given the recent changes in FX rates, it has become a meaningful headwind to our financial results. Our free cash flow this year would be more than double if you assume year over year constant currency rates.

While there is still a great deal of uncertainty and volatility in the macro economy, which we expect will continue into 2023, we are focused on what is under our control.

We are already seeing the results of the cost reduction plan we put in place last quarter, with improvements to margins and free cash flow this quarter. Our non-GAAP gross profit grew more than 10% year over year, resulting in a non-GAAP gross margin of 63%. We returned to positive free cash flow, excluding the investment in our new headquarters.

Given this successful execution, I am happy to say that we are on track to achieve the free cash flow margin targets for this year and next year that we outlined in our three year plan.

We also continue to focus on building our platform to be the leading destination for creating and managing an online presence for self-creators, professionals and developers. Our platform is built to meet the needs of any type of user and any type of business, and we continue to add products, services and solutions to the platform to deliver more value to our users and partners and help them succeed online and offline.

As part of our strategy in growing Partners revenue, we have built a more robust platform for designers and developers, and we intend to continue to expand and open our platform to accelerate more powerful solutions for developers.

To highlight our commitment to this community, in September we hosted our first ever developer conference, Wix DevCon, in New York. Hundreds of developers joined us as we introduced new capabilities and heard their feedback on how they use Wix.

At DevCon, we announced Wix Blocks, our new high-velocity ecosystem that enables professional designers to build responsive and customizable components that are reusable across multiple websites built on Wix and EditorX. Wix Blocks enables professionals to create an application with the ease of drag and drop, and allows them to work concurrently on the same project. All of these features increase developer productivity and efficiency.

We have been using Wix Blocks internally, and I can say it has created very positive changes in our dev velocity here. We believe that this offering will bring more developers and projects to Wix and create a more rich experience for them and others.

We also announced our new eCommerce vision -- a new open platform that provides developers the freedom and the flexibility to build scalable custom eCommerce experiences for any business need.

Wix Blocks and the new Wix eCommerce platform are just two examples of how we are expanding our offering for professionals coming to Wix and growing the value of our platform. We remain committed to delivering best in class products and services to all of our Self Creators and Partners to allow them to create and succeed online.

Before handing it over to Nir, I just want to thank the entire team at Wix for all of their hard work and for their continued focus on our users and their needs.

I'll now hand it over to Nir to talk a bit more about Q3 and provide an operational update. Nir?

## **Nir Zohar, President and COO**

Thanks Avishai and thanks to everyone who is joining us this morning.

As Avishai mentioned, the fundamentals of our business remain strong as can be seen in the cohort bookings data. As you can see on slide 12, cumulative cohort bookings for our Q1 '22 cohort increased to over \$47 million dollars through Q3. This is 5% higher than the Q1 '19 cohort in its first three quarters and 8% higher on a year over year constant currency basis.

This growth is a continuation of a trend we saw last quarter and evidence of our strong fundamentals -- conversion and retention rates remain at high levels and average bookings per subscription continues to increase. Despite the volatile macro environment and unfavorable FX we are experiencing, we continue to improve the monetization of users through data driven marketing and a robust product offering.

Our user additions of 4.7 million in Q3 reflect the current demand environment. As the global economic slowdown continues, beginning in September we adjusted our marketing spend to focus on higher-intent users. This resulted in a slight headwind to new user additions in Q3 while meaningfully improving return on our marketing investments. We expect this effect to continue through Q4.

Operationally, we continue to execute on our cost reduction plan that we outlined last quarter. We are hiring new employees only for high priority positions, and we continue to drive operational efficiencies across our Customer Care, R&D and sales and marketing teams. We have also continued to optimize overhead costs through reductions in our real estate footprint, software costs and third party advisory costs.

I'm also excited to report that last month, we moved the first wave of employees into our new headquarters campus in Tel Aviv. We also consolidated the rest of our Tel Aviv team that was spread out among about a dozen small locations in the city to a single location in the port. In addition to the operating cost savings we will realize from having a small number of offices, bringing our employees in Tel Aviv physically together is already delivering efficiencies to how we work.

Building our new campus and relocating thousands of people has been a massive project, and I am incredibly proud of all the hard work from our team to make it happen. The second and final wave of employees will move to the campus next summer, at which point all of us in Tel Aviv will be under one roof.

Before I hand it to Lior, I also want to take this opportunity to recognize our team in Ukraine. I'm really proud of our people and how they remain strong during these extremely hard and stressful times. With all of the hardship they have

experienced, which has actually intensified recently, our Ukraine team's efficiency and productivity remain high. Our thoughts are always with them and their families, while we continue to focus on everyone's safety and wellbeing.

With that, I will now hand it over to Lior to walk through more details on our financials. Lior?



## **Lior Shemesh, CFO**

Thanks Nir and welcome everyone.

As Avishai mentioned, we exceeded the top end of our guidance range for revenue in Q3, and we greatly improved our margins this quarter leading to positive free cash flow, excluding our headquarters capex. We believe this trend of improving margins and free cash flow will continue into Q4 and next year.

To begin, I want to share an update on our cost reduction plan and the benefits we are already seeing:

- Total non-GAAP gross margin improved from 62% in Q2 to 65% in Q3, and we expect another 100 bps of improvement in 2023
- Non-GAAP operating income improved by over 280 basis points in Q3 compared to last quarter, and in Q4 we expect to generate positive non-GAAP operating income for the first time since Q4 of 2019
- We now expect total non-GAAP operating expenses to be roughly flat in 2023 compared to this year, driving positive non-GAAP operating income for the full year.
- This trend along with improved gross margins means that nearly all of our incremental revenue in 2023 will flow through to the bottom line

- We generated positive free cash flow, excluding headquarters capex, of \$4.6 million in Q3

To sum up, we are already seeing significant benefits from our cost reduction plan and are sticking to the commitment of cash flow margins we made in our three-year plan.

Now, I'll quickly go through some highlights of our Q3 results.

Revenue was \$345.8 million, or 8% year over year growth, which was slightly above the high end of our guidance range due to strong performance in our user cohorts. On a year over year constant currency basis, revenue was \$350.8 million, or 10% year over year growth.

Transaction revenue, which is a subset of Business Solutions revenue and is composed primarily of Wix Payments, was \$36 million in Q3 or 12% year over year growth. GPV was \$2.5 billion in the quarter, roughly flat compared to last quarter as we continue to see slower growth in online purchase activity. Our take rate, measured as transaction revenue as a percentage of GPV, continued to increase as the percentage of GPV running through Wix Payments grows.

Partners revenue, which includes all types of revenue generated through designers and developers who build sites for others as well as B2B partnerships, grew to \$86.9 million or 24% year over year. On a constant currency basis, year over year growth was 26%. We continue to see more partners building on Wix as we gain more traction in the professional community despite macro pressures impacting project pipelines.

Total bookings in Q3 was \$352.5 million, and on a year over year constant currency basis was \$366.5 million. I want to highlight a few things related to this result:

- Note that FX rates impact bookings much more significantly than revenue as we collect the cash up front for subscriptions and renewals
- Slower growth in GPV also impacted bookings this quarter
- Also remember that in Q3 of last year, we recognized bookings related to B2B partnerships of \$48 million, which included our largest ever B2B partnership, Vistaprint, creating a very difficult comp this quarter.

If you remove this amount from bookings in Q3 of last year, our FX neutral year over year growth this year is 12%, which is the true indication of our growth on a year over year basis.

Changes in bookings related to B2B partnerships do not indicate near term changes in revenue because they have very different revenue recognition schedules. Bookings associated with these B2B partnerships are recognized into revenue over multiple years while bookings associated with our subscription packages typically are recognized into revenue over one year.

Finally, as the macroeconomic conditions remain challenged today, we have seen companies we speak to about B2B partnerships tighten project budgets and risk appetites, slowing the magnitude of new agreements. We expect this trend to continue in Q4 and next year.

Despite all of this, we are excited by the strength of our B2B pipeline and the growing contribution from existing partnerships.

Turning to our outlook for the remainder of the year. We expect total revenue in Q4 to be \$349 to \$354 million, or 5-6% year over year growth.

Last quarter, our full year revenue outlook was for 8-10% year over year growth. Factoring in FX changes since the summer, we have narrowed our outlook to 9% year over year growth. The midpoint of our full year outlook has not changed as we increased the bottom end of the prior range. For the full year, assuming

constant currency, total revenue would be about \$20 million dollars higher, or 10-11% y/y growth

We expect free cash flow in Q4 to be \$47 to \$50 million, excluding our headquarters capex. Achieving this range will produce the highest free cash flow quarter in our history.

For full year free cash flow excluding headquarters capex, we stated last quarter that our expectations were for 2-3% of revenue. Due to FX changes, we now anticipate free cash flow margin to be 2% of revenue for the full year. Assuming year over year constant currency, our free cash flow for the full year would be \$43 million dollars higher, or 5% of revenue, which is the high end of the range we presented in our three year plan.

We will provide more detail on 2023 during our Q4 earnings call in February. But I can comfortably say now that with the success of our cost reduction plan and operational efficiency improvements, we expect to achieve the free cash flow margin in 2023 consistent with the three year plan we shared in May.

With that, we will now go ahead and take your questions.