February 22, 2023

Q4 2022 Earnings Call

Prepared Remarks

Avishai Abrahami, Co-founder and CEO

Thanks Emily and good morning, everyone.

2022 certainly was a challenging year, but I'm happy to say we finished on a strong note, and we are entering 2023 a more efficient company with a clear path to increasing profitability.

Our Q4 results illustrate our ability to respond to the changing environment. We generated $52 million dollars in free cash flow in Q4, our highest quarter ever and ahead of our guidance. Revenue in Q4 grew to $355 million dollars, also ahead of our guidance.

Our increased focus on finding efficiencies and closely managing cost growth allowed us to drive considerable operating leverage during the quarter. We will maintain this focus through the coming years, and I believe it will enable us to emerge from this time as an even stronger company.

Throughout 2022, we managed through several challenges, including persistent inflation, FX volatility, the invasion of Ukraine, and overall global uncertainty. This is all on top of consumer behavior on the internet resetting to pre-COVID levels.

Despite these headwinds, the strong fundamentals of our business -- along with continued successful execution -- resulted in revenue growth and profitability finishing strong.

Revenue in 2022 grew 9% year over year to $1.4 billion dollars. On a constant currency basis, revenue grew 11% year over year. Much of this growth was driven by our

Partners business, with Partners revenue growing 29% year over year as we continue to successfully capture more of the professional market.

Nir will share a bit more about our latest operational updates in a few minutes, and Lior will then dive into our 2022 financial results as well as our outlook for the coming year.

But before that, I want to provide some more details on how we are evolving our marketing strategy to create a greater amount of efficiency with these investments.

As we mentioned last quarter, in September we began tests to adjust our marketing approach to focus on higher-intent users. We accelerated this testing throughout Q4, reducing our acquisition marketing investments by nearly 50% in the quarter compared to the previous year.

The results of doing this were fantastic. Despite reducing acquisition marketing by half, we have seen stable new cohort bookings.

We believe the driver of this success is the strength of our brand.

Our investments in building a global brand over the past 15 years have made Wix synonymous with relevant general keywords on the internet.

We plan to continue this new marketing strategy and expect investment in acquisition marketing to remain at these reduced levels throughout 2023. We also plan to shift dollars to invest more into our brand to drive future growth.

While we have increased focus on operating efficiency, our strategy to build the best platform and amazing products for millions of users of all types around the world has remained unchanged.

I am extremely excited to highlight the recent launch of Wix website creation with Chat GPT -- where Chat GPT is used to create text and content in a Wix website.

This product combines our leading innovation in website creation with our expertise in AI technology, which started with the market-first introduction of Wix ADI in 2016. AI Text Creator uses OpenAI's ChatGPT to allow users to add specific text and create professional content on their website easily within seconds – removing the pain point of content writing and greatly improving the user experience. We are implementing AI technology in a number of other ways as well, and I'm excited for the pipeline of amazing products we have in store for 2023.

Before I turn it over to Nir, I want to take a moment to extend my gratitude to the entire Wix team. I am very proud of the way the team managed through the last year, particularly those teammates who have been and continue to be directly impacted by the war in Ukraine -- our thoughts remain with you and your families.

Because of all of you and the incredible work you do, the potential of Wix in 2023 and beyond is unbounded, and I am excited for what is to come.

With that, Nir – over to you.

Nir Zohar, President and COO

Thanks, Avishai. As Avishai mentioned, over the last year and a half, we greatly increased our focus on operating efficiency and general prudence across the business.

Our efforts actually began at the end of 2021 as we were making plans for 2022. Due to increasing volatility and uncertainty, we began thinking more carefully about how we operate. We reduced our hiring activity and took a closer look at what was working and what was not.

As we moved through 2022, volatility continued with the war in Ukraine, increasing energy prices, high inflation and currency fluctuations. As we did not see improvements to the macro environment, we recognized we needed to take the next step to help us achieve our profitability targets.

In August last year, we parted ways with many people and took much more caution around expenses across the company. This rigorous review of our operations did not stop after this cost reduction plan.

Throughout the remainder of last year, we continued to examine our operations across the organization. This ongoing focus along with technological gains achieved in recent years led to uncovering additional cost efficiencies, and we made the difficult decision to rightsize the organization further to meet current demand needs.

Sadly, this meant asking approximately 7% of our employees to leave last week, which primarily occurred across our customer care organization. While this was the right decision for our business, it was not taken lightly. I want to extend my deepest gratitude to those impacted and say thank you to everyone who has participated in our journey.

This headcount reduction, in addition to the efficiency and actions implemented throughout 2022, will bring down our total headcount from nearly 6,100 at the end of Q1 2022 to roughly 5,200 at the end of this current process, reflecting a 15% decrease.

Related to these reductions, we expect to take a one-time charge of $20 to $30 million in Q1 due to severance and modifications of our real estate footprint as we align our office space with operating needs.

In addition to reducing the size of our Care organization, we also implemented hosting efficiencies and further operational expense savings.   These recent actions are expected to yield an incremental $50 million dollars of cost savings in 2023, or $65 million dollars of savings on an annualized basis.

Combined with the cost reduction plan announced last August, we have found a total of $215 million dollars of annualized cost savings compared to the three-year plan shared last May at our Analyst Day. These savings will allow us to achieve our path to profitability faster than we previously predicted.

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

Lior Shemesh, CFO

Thanks, Nir.

Let me start off by running through our numbers for Q4 and the full year before turning to some of our updated long term profitability expectations compared to what we shared last May at our Analyst Day. I'll wrap it up with some thoughts around 2023 outlook.

As Avishai mentioned, the fundamentals of our business remain strong, which led us to exceed the top end of our guidance range for revenue in Q4. Total revenue was $355 million this quarter, up 6% year over year and 8% on a constant currency basis. Total bookings were $371.8 million in Q4, also up 6% year over year and 10% on a constant currency basis.

Transaction revenue was $38.9 million, up 8% year over year – this growth was driven by higher GPV of $2.6 billion, up 4% y/y, and a higher take rate as adoption of Wix Payments continues to increase.

Partners revenue grew to $94.6 million, up 23% year over year as more and more partners are building projects on Wix.

Most impressively this quarter – as a result of all actions we have taken to increase efficiency, we finished the year with free cash flow of $52 million in Q4, above our guidance range. This made Q4 the most profitable FCF quarter in our history, excluding investments in our new headquarters, and we expect to continue this momentum in 2023.

Moving onto the full year results. Total revenue in 2022 was $1.39 billion, an increase of 9% y/y or up 11% y/y on a constant currency basis. Total bookings were $1.47 billion, up 4% y/y or up 7% y/y on a constant currency basis.

Our increased focus on efficiency led to improved gross margins and greater operating leverage in 2022. This led to free cash flow within the range of our prediction at our Analyst Day in May 2022. We followed through with our commitment to reach our margin targets this year, and we plan to exceed them next year.

Due to our focus on efficiencies, we have a strong path to profitability. We now expect to achieve key financial milestones we laid out in our Analyst Day approximately two years sooner than previously anticipated:

- Our total non-GAAP gross margin is expected to increase to 66% in 2023 with an exit margin of 67%, and Creative Subscriptions non-GAAP gross margin is expected to reach 80% in 2023 -- a level we did not expect to achieve until late 2024

- Non-GAAP operating expenses are expected to be down to 59-60% of revenue for 2023 – a level previously anticipated for 2025

- We now expect more than $100 million of non-GAAP operating income and positive non-GAAP net income in 2023 – targets previously anticipated for late 2024

- And we now expect positive GAAP operating income and GAAP net income in 2025 – targets previously anticipated beyond the three-year horizon

- Our expectation is that our Partners business will generate positive FCF by mid-2024 – more than a year ahead of our three-year plan shared in May 2022

The momentum achieved in 2022 and continued steps towards greater efficiency going forward demonstrate our full commitment to reaching the Rule of 40 in 2025 under varying growth scenarios.

Now, let me review our outlook for Q1 and 2023.

We expect total revenue in Q1 to be $367 million to $371 million, representing approximately 7% to 9% y/y growth.

For the full year, we expect total revenue to be approximately $1.51 billion to $1.54 billion, representing approximately 9% to 11% y/y growth.

I mentioned earlier improvements in both total gross margin and Creative Subscriptions gross margin in 2023, which will be driven by savings from cost efficiencies in Customer Care and hosting.

Non-GAAP operating expenses in 2023 are expected to be down year over year to 59-60% of revenue as operational efficiencies from our cost reduction efforts materialize. We also expect sales and marketing expenses to be 27% to 28% of revenue in 2023, a decline from 32% of revenue last year.

As Avishai mentioned, as we evolve our marketing strategy, we are lowering our acquisition marketing investment throughout 2023 and plan to invest more into our brand in order to drive future growth.

Because we see stable new cohort bookings, we will reduce acquisition marketing investment going forward. We plan to take a portion of these savings and invest them in brand marketing activities. We will continue to develop specific plans through the first half of 2023 and expect brand marketing investment to be higher in the second half of 2023. We currently estimate this increased brand marketing investment to be roughly 3-4% of revenue in the second half of 2023.

We still expect lower total sales and marketing expenses in 2023 compared to 2022 as our efficiency improves from this new strategy.

We expect depreciation expense of approximately $17 to $19 million, non-headquarters related capex of approximately $8 to $9 million and headquarters-related capex of $50 to $55 million for full year 2023. The headquarters capex was a bit lower in Q4 2022 and a bit higher in 2023 than we had communicated last quarter due to timing reasons. The total cost of the project remains the same.

Free cash flow excluding headquarters investments is expected to be roughly $152 to $162 million, or 10% to 11% of revenue in 2023.

We expect free cash flow margin to improve as we progress through the year and exit 2023 with a free cash flow margin of approximately 12% to 13%, driven by the new efficiencies implemented in the first half of 2023.

Finally, stock-based compensation is expected to decrease to 15% of revenue in 2023, down from 17% of revenue in 2022, as headcount across the organization declines. We expect stock-based compensation as a percentage of revenue to continue to decline y/y through 2025.

The accelerated profitability expected in 2023 will put us on the path to achieve the "Rule of 40" in 2025.

With that, we will now take your questions.