# SHAREHOLDER UPDATE

Second Quarter 2019

July 24th, 2019

WiX.com

# Q2’19 Highlights

## Robust top line growth



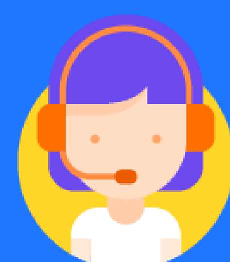
**$5.9 billion**
in expected future collections from existing cohorts over the next 8 years, up 28% from $4.6 billion over a year ago

## Increasing cohort value

## Efficiency improvements driving free cash flow growth


## Elevating overall product experience to drive lifetime cohort value

## Ramping expansion of Customer Solutions



# Q2'19 Highlights

**Delivered another quarter of robust top line growth and improving operating leverage**

- Revenue of $185.4M, up 27% y/y, and collections were $199.6M, up 25% y/y, both exceeding the high end of our guidance ranges
- Results reflect increasing growth from increased sale of complementary products and higher priced website packages, driving accelerating revenue and collections per subscription
- Free cash flow was $30.8 million, up 29% y/y, reflecting the increasing leverage in our business model

**Increasing cohort value demonstrates successful execution of strategy to increase lifetime cohort value**

- The H1'19 user cohorts generated 9% more in collections compared to the H1'18 user cohorts
- Future collections of all existing cohorts expected to be $5.9 billion over the next 8 years, an increase of 28% from $4.6 billion over a year ago
- Average Collections per Subscription (ACPS) of new, full-priced annual subscriptions in the US increased 29% y/y to $228 in Q2

**Elevated overall product offering driving improved monetization**

- Significant product improvements implemented over the past two years have materially increased the value that Wix provides to our users, including:
    - Business applications such as vertical applications, Ascend by Wix, Wix Payments, Logo Maker, G-Suite and other TPAs
    - Improvement to products that are critical for an online presence today, including Wix Video, Pro Gallery, Wix Blog and SEO Wiz
    - Enhanced performance and faster loading times driven by Wix Turbo
    - Custom code capabilities and other advanced developer functionalities provided by Corvid
    - Ability to manage site content through database collections as well as the ability to easily build hundreds of dynamic pages quickly
- As a result of these advancements, we implemented higher price points as part of our ongoing strategy to increase the long term value of our cohorts
- Retention has remained strong, validating the value of our overall product platform

## Q2 Results vs. Guidance

**GAAP Revenue**

Actual Results

**$185.4 million**

Prior Guidance

**$182-184 million**

**Collections**

Actual Results

**$199.6 million**

Prior Guidance

**$197-199 million**

**Gaining significant momentum in professional markets**

- There are now over one million users of Corvid, with over 20% of those users being highly engaged
- Sites built by Corvid users have 6x more traffic than non-Corvid sites
- Building the Wix Partners organization is going well - we are gaining traction and building relationships with thousands of professional design agencies

**Ramping the expansion of the Customer Solutions organization**

- We have engaged agents around the world to increase our overall level of support to our user base
- Since implementing 24/7 support, our call volume has risen significantly, while wait time has dropped
- In addition to increasing call volume, we also are beginning to actively assist and guide our users during their Wix journey by advancing them through the funnel via more personalized support

**Updated guidance highlighted by accelerating collections and revenue growth y/y in the second half**

- Guidance reflects confidence in continued benefits of ongoing product improvements, success of new initiatives and higher price points

# An Update on our Evolution

We continue to monitor the three factors that drive growth in our business - user growth, conversion and monetization per subscription - and **our main objective remains to maximize overall collections from each user cohort.**

Earlier this year we discussed the evolution of our business and how we are delivering more value to our users by entering new markets and offering more products to enable users to build their dreams online. As a result, **we believe that monetization per subscription will be a larger contributor to growth than in years past.**

The optimization of price points and the removal of our lowest-priced package - supported by considerable product improvements over recent quarters - coincides with this evolution. We implemented changes to packaging and pricing in two phases: the first phase began in August of 2018 and the second phase began in May of 2019.

As expected, the implementation of the changes that began in August 2018 negatively impacted net subscription additions in the first half of 2019. **While net subscription additions in 1H'19 were lower compared to a year ago, collections from these new cohorts grew 9% y/y.**

The second phase of changes to packaging and pricing that began in May, primarily in the US, will further impact net subscription additions in the second half of the year. **We now expect net subscription additions for the full year to be 450 - 500 thousand. We believe the increased value of new cohorts will be driven primarily by growth in the average collections per new subscription - as we observed in the first half - and will drive overall collections growth to accelerate on a y/y basis in the second half.**

We have completed the majority of this phase of pricing changes and, while we will continue to run tests to increase overall cohort value, we do not expect material changes to pricing for the remainder of the year. As such, we expect that net subscription additions will reaccelerate in 2020.

# Financial Performance

*Please refer to the "Notes" section at the end of this document in regards to the presentation of these financial results.*

Revenue in Q2 was $185.4M, up 27% y/y, exceeding the high end of our guidance range of $182-184M. Collections in Q2 were $199.6M, up 25% y/y, exceeding the high end of our guidance range of $197-199M.

**ARPS in Q2 grew 9% y/y and was up 2% q/q to $171.** We continue to benefit from increases in the adoption of complementary products and applications by our users and increased prices.

**Average collections per new annual, full-priced subscription package in the US, an early indicator of future ARPS growth, was up 29% y/y** to $228 in Q2. The increase in both average collections per new annual subscription and ARPS reflects the success of our efforts to increase the monetization of our user cohorts.

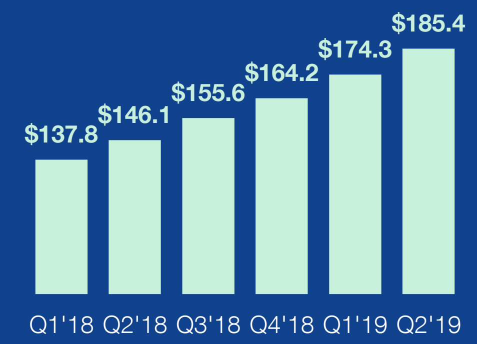
We still believe that pricing changes and increased adoption of applications and non-subscription products will continue to contribute to monetization per subscription. ARPS will continue to be a driver of growth in the coming quarters.

Non-GAAP gross margin was 76% of revenue in Q2 compared to 80% in Q2 of 2018. This decline in non-GAAP GM% is driven by:

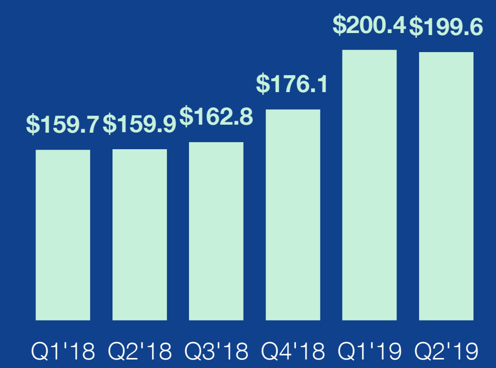
- The growth in sales of TPAs, including G-Suite, which have a lower gross margin
- Revenue from the adoption of Wix Payments, which is recognized on a gross basis. Costs that we pay to our payment providers will be recognized in cost of revenue
- The expansion of our Customer Solutions organization. As we mentioned last quarter, we are investing $15 million in 2019 to engage more agents globally and to increase our support to 24/7

Non-GAAP R&D expense was $47.2M in Q2 compared to $45.8M in Q1 and $37.8M in Q2 2018. As a percent of collections, non-GAAP R&D expense was 24% in Q2, compared to 23% in Q1 and 24% in Q2 2018, in line with our plan.

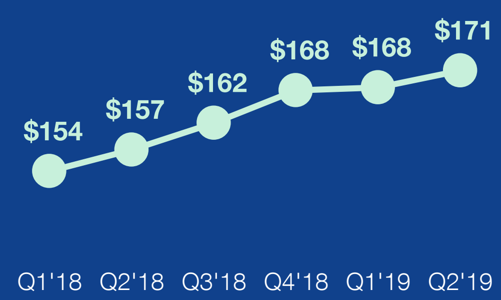
**Revenue (in millions)**




**Collections (in millions)**




**Average Revenue per Subscription (ARPS)**




**Average collections per annual, full-priced subscription package in the U.S.**

Non-GAAP S&M expense was $66.4M in Q2 compared to $80.5M in Q1 and $56.2M in Q2 2018. As a percent of collections, S&M expense was 33% in Q2 compared to 40% in Q1 and 35% in Q2 2018. This decline in non-GAAP S&M expense as a % of collections was in line with our expectations and demonstrates the increasing efficiency in our marketing investment.

We improved our overall marketing efficiency in the quarter as we continue to attract higher quality users.

Non-GAAP G&A expense was $12.5M in Q2 compared to $11.9M in Q1 and $10.0M in Q2 2018. G&A expenses have increased in parallel with the growth of our overall business. Non-GAAP G&A expense was 6% of collections in Q2, the same as in Q1 and Q2 2018.

Non-GAAP operating income in Q2 was $14.2M, compared to an operating loss of $(2.2M) in Q1 and operating income of $12.9M in Q2 2018.

Free cash flow in Q2 was $30.8M, compared to $30.0M in Q1 and $23.9M in Q2 2018, an increase of 29% y/y. We continue to see leverage in our business model and an increase in net cash from operating activities.

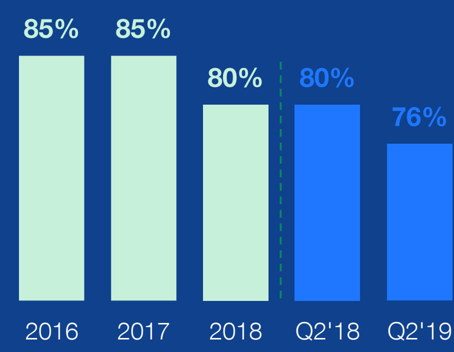
Capital expenditures were $6.4M in Q2, compared to $5.0M in Q1 and $3.4M in Q2 2018. The increase was driven mainly by leasehold improvements and equipment to support our growing headcount.

**We ended the quarter with $824.6M in cash on the balance sheet and $349.3M in long-term debt.**

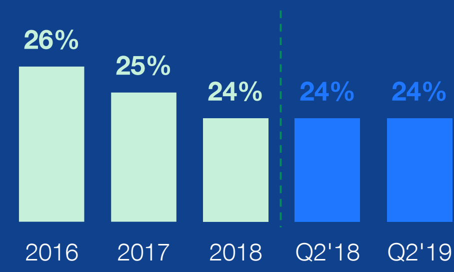
Our total employee headcount was 2,867 as of the end of Q2 2019 and excludes the new Customer Solutions agents that were hired by a third party and are not counted in our employee headcount figures.

At the end of Q2 2019, our basic weighted average share count was approximately 50.3 million and our weighted average fully diluted share count was approximately 60.3 million, which includes the impact from the net exercise of options that began in Q1 2018.

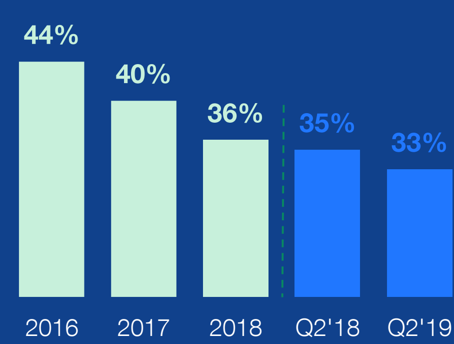
**Non-GAAP Gross Margin**



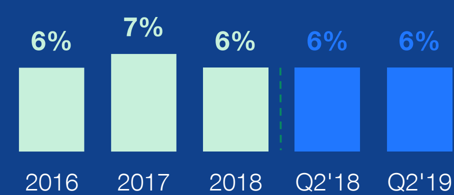

**Non-GAAP R&D as a % of Collections**




**Non-GAAP S&M as a % of Collections**




**Non-GAAP G&A as a % of Collections**



*Reduction in Share Dilution*
In another effort to reduce dilution, the Company is announcing that it has cancelled its reserve unallocated equity pool from pre-IPO of approximately 1.59 million shares.

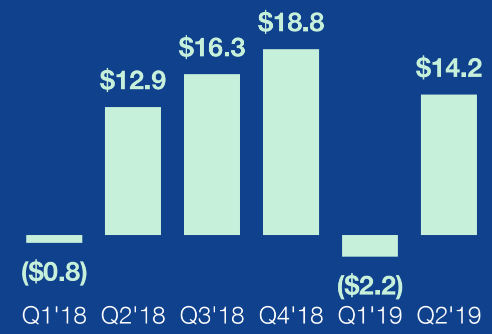
**As demonstrated by this action and others, the Company, with the supervision of the Board of Directors, continues to focus on a disciplined approach to manage the long-term effects of its equity incentive grants.**

Prior to this most recent action, we have implemented other measures to reduce our dilution rate:

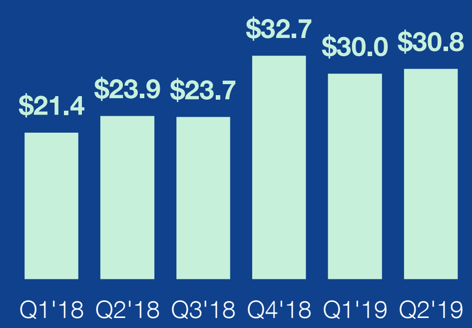
- Since 2015, the company has gradually shifted from granting 100% options in 2014, to a mix of options and RSUs, which are attributed to dilution rate reduction
- In mid-2018, we adopted the use of a net exercise program to reduce the dilution resulting from the exercise of employee options

**Collectively, these measures have reduced the dilution rate by 41% since 2015**: our dilution rate dropped from 27% as of January 2015 to 16% as of June 30, 2019. By the end of 2020, we expect our dilution rate to further decline by an additional 27%, to 11.7%.[1]

**Non-GAAP Operating Income (Loss) (in millions)**




**Free Cash Flow (in millions)**




[1] The dilution % presented for June 30, 2019 and projected for the end of 2020 reflect Wix's calculation of dilution, which includes the full projected effect of the net exercise of options and assumes future exercises at projected share prices. These calculations may differ from those of proxy advisory services such as ISS and Glass Lewis as these services typically will not consider net exercise of options

# User Cohort Performance

**In Q2 2019, we added 5.7 million registered users, bringing total registered users to over 154.0 million.** Note that beginning in Q1 2019, we exclude users that initially registered with Wix through non-website products (such as Wix Logo Maker) and have not yet begun the process of building a website. In Q2 through Q4 2018, we included these users as the number was immaterial.

Our user cohorts continued to exhibit consistent behavior through the second quarter of 2019:

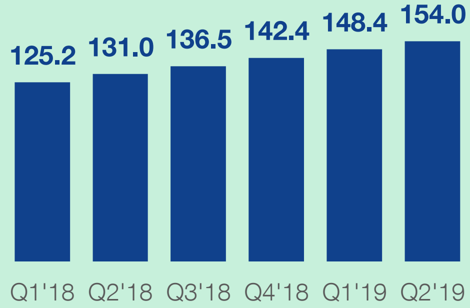
- The H1’19 user cohorts generated 9% more in collections than the H1’18 user cohorts over the same period of time
- Average Collections per Subscription (ACPS) of new, full-priced annual subscriptions in the US increased 29% y/y to $228 in Q2
- With the addition of our newest user cohort in Q2 2019, **we now expect future collections of all existing cohorts to be $5.9 billion over the next 8 years**, based on current cohort behavior, an increase of approximately 28% over a year ago. This increase is driven by projected collections of older cohorts and the addition of new cohorts

Total premium subscriptions at the end of the second quarter were 4.3 million, or 17% higher than the second quarter of 2018.

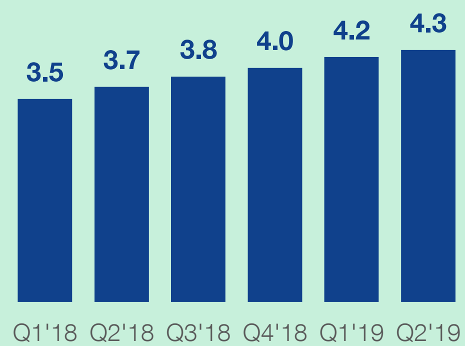
**We added 132K net premium subscriptions in the second quarter, in line with our expectations.**

During the quarter, 67% of gross subscriptions were annual or longer in term while 33% were monthly. As of the end of the second quarter, 83% of all subscriptions were annual or longer in term. The new cohort generated 37% of gross subscriptions in the quarter while existing cohorts comprised 63% of gross subscriptions.

**Total Registered Users**
**(in millions, at the end of the period)**




**Total Premium Subscriptions**
**(in millions, at the end of the period)**




**$5.9 billion**

**in expected future collections from existing cohorts over the next 8 years**

# Update on New Initiatives

We launched several new products and initiatives over the last year that we believe improve our overall platform for our users and will provide growth for many years. These initiatives are in addition to many other product enhancements and new offerings currently under development.

**We are excited about where each of these new opportunities stands today and their ability to drive growth in the future.** The following is an update on several of these initiatives:

## Corvid by Wix

When we spoke about Corvid at our Analyst Day a year ago, we highlighted that this product will expand our addressable market, allowing us to attract a more professional, technically advanced user, including developers and design agencies. **We have achieved this goal as professionals are coming to Wix in greater numbers than we have ever seen in order to build more robust sites and applications. This is the first stage of monetization of Corvid.**

There are now over 1 million users of Corvid by Wix, a huge milestone for Wix. Of the 1 million users, over 20% are highly engaged, meaning these users are writing custom code or using the most advanced functionality available. Considering this product was launched as Wix Code only 18 months ago, we are excited with the growth of this product to date.

Even users who are not highly engaged are utilizing more powerful capabilities than what was previously available on Wix. Sites built by users of Corvid have 6x more traffic than non-Corvid sites. This data illustrates that, with Corvid, we are attracting a much more sophisticated and professional group of users to our platform and enabling non-professional users to build more advanced websites.

We continue to improve Corvid by Wix, as we noted last quarter, with the introduction of several new features that we revealed at Google Cloud Next Conference in April. We believe that with Corvid, we will continue to attract professionals as well as enterprises to Wix.

## Wix Partners

Agencies and independent professionals that use Wix to build sites for others are now called "Partners." Product improvements - especially Corvid by Wix - as well as the development of our brand in this market are bringing more Partners to Wix than ever before. We also engage, interact and build relationships with Partners through our growing Agencies relationship team. We announced in February that the $15-20 million investment in growth is primarily to build these efforts. Today, over tens of thousands of Partners - from independent freelancers to small, SMB-focused agencies to mid-market and large agencies - are using Wix.

To illustrate our success with just one type of these Partners, let's take a look at our evolving relationship with Agency MJ, an actual agency that focuses on building sites for SMBs and is representative of many of our Partner relationships (we have changed the name of the agency to protect its identity):

Agency MJ is a marketing agency that offers a complete solution for its clients, including website design, SEO, email marketing and social media. This agency employs 12 people: three designers, two social media experts, two business development leads, one webmaster and one developer. The developer knows JavaScript, PHP and Python and uses several different integrated development environments (IDEs), including PyCharm and WebStorm.

This agency had used Wix for a small number of projects in the past but used Joomla and Wordpress and other popular platforms for most. However, with the release of Corvid by Wix and engagement with one of our Agency team members, Agency MJ has recently shifted much of its work to Wix.

The head of Agency MJ told us "we were always looking for solutions that simplified internal processes for website development while helping our clients thrive with a well-built website (aesthetically and back end configuration). I am a firm believer in building from coded-blocks vs building from scratch. So when I was introduced to Wix, that was the first thing that caught my attention." Some additional reasons for their shift to Wix referenced are:

- *Development efficiency*: Wix has enabled designers at the agency to complete projects much faster than they would have been able to on other platforms. The efficiency of the Wix Editor allows these designers to bring their ideas to production in a code-less and publishable environment without the need for developers to build the desired features. Greater efficiency allows this agency to build more sites faster while using less resources. In addition, our Agency team has introduced Agency MJ to some of Wix's best designers, who have shared best practices with the firm

- *Managed platform*: Being able to use a single platform is a huge benefit for Agency MJ as it "future-proofs" the project from inevitable changes to security requirements and regulatory compliance while providing top-tier hosting and security

- *Corvid by Wix*: Capabilities enabled by Corvid allow the developer to build customized applications and design elements or implement integrations without limitations

As an early Partner of Wix, we have received invaluable feedback from Agency MJ that drove some of the recent enhancements to Corvid, including the ability for the developer, designer and webmaster to work simultaneously. This constant attention to the improvement of the platform is also a big reason they noted for a reason they moved to Wix.

Agency MJ has built hundreds of sites on Wix, and we continue to work closely with this agency.

## Customer Solutions

The expansion of our Customer Solutions organization that we disclosed last quarter is well underway. To date we have engaged additional agents around the world to increase our overall level of support to our user base, and we have implemented 24/7 support and provide support in nine different languages.

Since implementing round the clock support, we have made it easier for our users to reach us. While our call volume has nearly doubled, at the same time, the average wait time to speak to one of our support agents has dropped to under a minute. In addition to handling this increased call volume, we also are beginning to implement processes to actively assist and guide our users during their Wix journey by advancing them through the funnel via personalized support.

The early data supports our previous tests that conversion of users who engaged with our Customer Support on the phone is multiple times higher than users who did not engage with support. We continue to believe that our investment in this expansion will drive incremental collections growth of approximately 5% in 2020.

## Wix Payments

Wix Payments is now live in more than a dozen countries with several more planned for the second half of the year. In addition to increasing the penetration of Wix Payments among new users, overall GMV on Wix continues to grow. Growth in both of these measures support our belief that Wix Payments will be a driver of growth in 2020.

## Ascend by Wix

Usage of Ascend's components - especially Chat, Forms, SEO Wiz and Email Marketing - continue to rise among our users. **Over 500,000 Wix users that have a premium subscription have used at least one component of Ascend by Wix in the last 30 days, illustrating this product's enormous market potential.** It also illustrates that the tools within the Ascend package are valuable to Wix users and that there is a growing opportunity within our user base to sell Ascend.

We have made several product improvements to Ascend over the first half of 2019, most notably to Email Marketing, Forms and Chat. These product improvements and new product additions to Ascend are in the works for the second half of the year.

We also continue to improve the discoverability and usage of Ascend through targeted emails and visibility in the dashboard, and we have implemented processes to sell Ascend through Customer Solutions. All of these efforts support our view that Ascend will be a contributor to collections growth in 2020.

## DeviantArt

With over 40 million users, DeviantArt is one of the largest online communities for artists and content creators in the world. We continue to introduce DeviantArt Eclipse - the newly redesigned platform - to users and improve the overall experience for the community. Simultaneously, we are actively developing monetization strategies for DeviantArt.

## Wix Answers

We continue to onboard new clients to Wix Answers. The product offering also continues to improve with the addition of multiple new features. We are actively building a team to sell this product to large businesses and enterprises.

# Business Outlook

Our updated outlook for 2019 reflects the benefits of the ongoing evolution of our business as we focus on maximizing the lifetime value of our user cohorts.

For Q3 2019, we expect the following:

- Revenue of $196-198 million, reflecting y/y growth of 26-27%
- Collections of $204-206 million, a y/y increase of 25-27%

For FY 2019, we are updating our guidance to the following:

- Revenue of $761-765 million, reflecting y/y growth of 26-27%
- Collections of $825-831 million, reflecting y/y growth of 25-26%
- Free cash flow of $123-126 million, reflecting y/y growth of 21-24%

**With the continued growth in the adoption of complementary products as well as higher pricing, we anticipate accelerated collections and revenue growth in the second half of 2019.**

*Additional Guidance*
We are updating the following additional guidance for FY 2019:

- Non-GAAP gross margin: we continue to expect non-GAAP gross margin of approximately 75-76% of revenue in 2019
- Non-GAAP sales and marketing expense: we continue to expect S&M expense on a non-GAAP basis to be approximately 35-36% of collections
- Non-GAAP operating expense: we expect total non-GAAP operating expenses to be roughly 65% of collections, in line with what we previously guided
- Non-GAAP tax expenses: we now expect total non-GAAP tax expenses to be $7-9 million, up from previous guidance of $5-6 million
- Capital expenditures: we continue to expect capital expenditures of approximately $22-23 million

## Q3'19 Guidance

**GAAP Revenue**
**$196-198 million**
**26-27% y/y growth**

**Collections**
**$204-206 million**
**25-27% y/y growth**

## Updated FY'19 Guidance

**GAAP revenue**
**$761-765 million**
**26-27% y/y growth**
Prior Guidance
**$758-763 million**

**Collections**
**$825-831 million**
**25-26% y/y growth**
Prior Guidance
**$822-830 million**

**Free cash flow**
**$123-126 million**
**21-24% y/y growth**
Prior Guidance
**$122-126 million**

- Depreciation: we continue to expect depreciation to be approximately $12 million
- Share based compensation expense: we continue to expect SBC expense to be roughly $114-115 million
- Interest income: we continue to expect roughly $20 million in cash interest income in FY 2019
- Share count: we estimate we will have approximately 51-53 million basic shares outstanding at the end of full year 2019
    - Please note that basic weighted average shares outstanding is equal to fully diluted weighted shares outstanding to calculate fully diluted EPS as long as there is a GAAP net loss, which we anticipate will be the case for 2019

We estimate that we will have approximately 60-62 million fully diluted shares outstanding at year-end, including the impact from the net exercise.

Assuming the full impact of the net exercise program in 2019, fully diluted shares outstanding would be approximately 1.3 million lower at year-end.

| | FYE 2019 |
|---|---|
| Basic Shares Outstanding | 51-53 million |
| Fully Diluted Shares Outstanding | 60-62 million |
| Est. impact of net exercise[2] | (1.3 million) |
| Fully Diluted Shares Outstanding, incl. net exercise | 59-61 million |

[2] Based on a projected share price as of year-end 2019



## Additional 2019 Guidance

**Non-GAAP gross margin**

**~75-76% of revenue**

**for FY 2019**

**Non-GAAP sales and marketing expense**

**~35-36% of collections**

**for FY 2019**

**Total Non-GAAP operating expenses**

**~65% of collections**

**for FY 2019**

**Non-GAAP tax expenses**

**~$7-9 million**

**for FY 2019**

**Capital expenditures**

**~$22-23 million**

**for FY 2019**

## Notes and Modeling Clarifications

- *Non-operating foreign exchange expenses (income):* Beginning in Q1 2019 we began excluding non-operating foreign exchange expenses and income from our non-GAAP calculations of net income and EPS; the tables in this document reflect these changes starting in Q1'18 for comparability purposes
- *Operating leases*: We adopted Topic 842 effective January 1, 2019. The most significant effect of Topic 842 was the recognition of $62 million of operating lease assets and liabilities as of January 1, 2019. We applied Topic 842 to all leases as of January 1, 2019 with comparative periods continuing to be reported under Topic 840. Our accounting for finance leases remains substantially unchanged. The standard does not have a significant effect on our consolidated results of operations or cash flows.
- *Share repurchase authorization*: Wix received court approval in Israel to re-authorize the Company to repurchase up to $100 million of its ordinary shares until December 31, 2019. Wix did not repurchase any shares in the period ended June 30, 2019.
- *Revenue recognition:* throughout 2019, we plan to report revenue as a single line item. Revenue derived from Wix Payments will be recognized on a gross basis.
- *Registered Users:* beginning in Q1 2019, we will exclude from the Registered Users number users that initially registered with Wix through non-website products and have not yet begun the process of building a website. In Q2 through Q4 2018, we included these users as the number was immaterial in each of those quarters. Once one of these users begins the process of building a website on Wix, that user will be counted as a Registered User in that period. We do not include Flok or DeviantArt users in our registered users numbers.
- *Premium subscriptions:* users that have purchased an Ascend by Wix subscription or a G-Suite subscription are not double-counted. We also do not include users who make a one-time purchase of a logo from the Wix Logo Maker. Wix Answers subscriptions are also not counted as a separate premium subscription. We also do not include Flok or DeviantArt users in our premium subscriptions numbers.
- *ARPS*: We calculate ARPS as total revenue, including revenue from third party applications such as G-Suite, over the last four quarters divided by the average number of premium subscriptions over the same period
- *Average Collections per New Annual, Full-Priced Subscriptions in the US* includes collections per new annual subscriptions purchased in the US and paid in USD, excluding collections from subscriptions purchased on sale days or using coupons. We show this data to illustrate the early signs of a trend that we believe will continue, however this represents a small portion of our total business.

## Additional 2019 Guidance

**Depreciation**

**~$12 million**

**for FY 2019**

**Share based compensation expenses**

**~$114-115 million**

**for FY 2019**

**Basic shares outstanding**

**~51-53 million**

**at FYE 2019**

**Fully diluted shares outstanding**

**~60-62 million**

**at FYE 2019**

## Conference Call and Webcast Information

Wix will host a conference call at 8:30 a.m. ET on Wednesday, July 24, 2019 to answer questions about the financial and operational performance of the business for the second quarter ended June 30, 2019. The conference call will include a brief statement by management and will focus on answering questions about our results during the quarter. To enhance the Q&A portion of this call, the Company has posted a shareholder update and supporting slides to its Investor Relations website at https://investors.wix.com/. These materials provide shareholders and analysts with additional detail for analyzing results in advance of the quarterly conference call.

To participate on the live call, analysts and investors should dial +1-877-270-2148 (US/ Canada), +1-412-902-6510 (International) or 1-809-212-373 (Israel) at least ten minutes prior to the start time of the call and reference Conference ID WIX. A telephonic replay of the call will be available through July 31, 2019 at 11:59 p.m. ET by dialing +1-877-344-7529 and providing Conference ID 10133234. Wix will also offer a live and archived webcast of the conference call, accessible from the "Investor Relations" section of the Company's website at https://investors.wix.com/.

Non-GAAP Financial Measures

To supplement its consolidated financial statements, which are prepared and presented in accordance with U.S. GAAP, Wix uses the following non-GAAP financial measures: collections, non-GAAP gross margin, non-GAAP operating income (loss), non-GAAP net income (loss), non-GAAP net income (loss) per share, non-GAAP research and development, non-GAAP selling and marketing, non-GAAP general and administrative, non-GAAP operating expense, non-GAAP tax expense and free cash flow (collectively the "Non-GAAP financial measures"). Collections represents the total cash collected by us from our customers in a given period and is calculated by adding the change in deferred revenues for a particular period to revenues for the same period. Non-GAAP gross margin represents gross profit calculated in accordance with GAAP as adjusted for the impact of share-based compensation expense, acquisition-related expenses and amortization, divided by revenue. Non-GAAP operating income (loss) represents operating income (loss) calculated in accordance with GAAP as adjusted for the impact of share-based compensation expense, amortization, and acquisition-related expenses. Non-GAAP net income (loss) represents net loss calculated in accordance with GAAP as adjusted for the impact of share-based compensation expense, amortization, amortization of debt discount and debt issuance costs, acquisition-related expenses and non-operating foreign exchange expenses (income). Non-GAAP net income (loss) per share represents non-GAAP net income (loss) divided by the weighted average number of shares used in computing GAAP loss per share. Non-GAAP research and development represents research and development expenses calculated in accordance with GAAP as adjusted for the impact of share-based compensation expense, acquisition-related expenses and amortization. Non-GAAP selling and marketing represents selling and marketing expenses calculated in accordance with GAAP as adjusted for the impact of share-based compensation expense, acquisition-related expenses and amortization. Non-GAAP general and administrative represents general and administrative expenses calculated in accordance with GAAP as adjusted for the impact of share-based compensation expense and acquisition-related expenses. Non-GAAP operating expense represents the sum of research and development, selling and marketing and general and administrative expenses calculated in accordance with GAAP adjusted for the impact of share-based compensation expense, acquisition-related expenses and amortization. Non-GAAP tax expense represents tax expense calculated in accordance with GAAP as adjusted for the tax benefit related to the exercise of options. Free cash flow represents net cash provided by (used in) operating activities less capital expenditures.

The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. The Company uses these non-GAAP financial measures for financial and operational decision making and as a means to evaluate period-to-period comparisons. The Company believes that these measures provide useful information about operating results, enhance the overall understanding of past financial performance and future prospects, and allow for greater transparency with respect to key metrics used by management in its financial and operational decision making.

For more information on the non-GAAP financial measures, please see "Reconciliation of GAAP to Non-GAAP Financial Measures" below. The accompanying tables have more details on the GAAP financial measures that are most directly comparable to non-GAAP financial measures and the related reconciliations between these financial measures. The Company has not reconciled its free cash flow, non-GAAP gross margin, non-GAAP selling and marketing expense, non-GAAP operating expense and non-GAAP tax expense guidance to the most directly comparable GAAP measure because the most directly comparable GAAP measure is not accessible on a forward-looking basis. Items that impact such GAAP measures are out of the Company's control and/or cannot be reasonably predicted. Accordingly, a reconciliation the most directly comparable GAAP measure for each non-GAAP guidance measure is not available without unreasonable effort.

Forward-Looking Statements

This document contains forward-looking statements, within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. Such forward-looking statements may include projections regarding our future performance, including, but not limited to revenue, collections and free cash flow, and may be identified by words like “anticipate,” “assume,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “outlook,” “future,” “will,” “seek” and similar terms or phrases. The forward-looking statements contained in this document, including the full year guidance, are based on management’s current expectations, which are subject to uncertainty, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Important factors that could cause our actual results to differ materially from those indicated in the forward-looking statements include, among others, our ability to grow our user base and premium subscriptions; our ability to create new and higher monetization opportunities from our premium subscriptions; our ability to enter into new markets and attract new customer segments; our ability to maintain and enhance our brand and reputation; our prediction of the future collections generated by our user cohorts; our share repurchases made pursuant to our share repurchase plan; our ability to manage the growth of our infrastructure effectively; our ability to effectively execute our initiatives to scale and improve our user support function; the success of our sales efforts; customer acceptance and satisfaction of new products and other challenges inherent in new product development; changes to technologies used in our solutions; or changes in global, national, regional or local economic, business, competitive, market, regulatory and other factors discussed under the heading “Risk Factors” in the

Company’s 2018 annual report on Form 20-F filed with the Securities and Exchange Commission on April 9, 2019. Any forward-looking statement made by us in this press release speaks only as of the date hereof. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise.

## Reconciliation of GAAP to Non-GAAP financial measures

| in 000s | 2017 | | | | 2018 | | | | 2019 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Revenue | $92,538 | $103,522 | $111,031 | $118,545 | $137,775 | $146,132 | $155,600 | $164,197 | $174,290 | $185,419 |
| Change in deferred revenue | $22,008 | $13,599 | $9,088 | $13,658 | $21,880 | $13,763 | $7,177 | $11,861 | $26,089 | $14,144 |
| Collections | $114,546 | $117,121 | $120,119 | $132,203 | $159,655 | $159,895 | $162,777 | $176,058 | $200,379 | $199,563 |

| in 000s | 2017 | | | | 2018 | | | | 2019 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| GAAP Gross Profit | $77,675 | $85,497 | $92,204 | $100,869 | $108,731 | $115,695 | $122,623 | $129,708 | $134,575 | $138,757 |
| Share Based Compensation | $506 | $695 | $783 | $946 | $1,079 | $1,087 | $1,102 | $1,150 | $1,311 | $1,436 |
| Amortization | $0 | $1,040 | $757 | ($1,292) | $142 | $142 | $142 | $142 | $142 | $141 |
| Acquisition Related Expenses | $28 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Non-GAAP Gross Profit | $78,209 | $87,232 | $93,744 | $100,523 | $109,952 | $116,924 | $123,867 | $131,000 | $136,028 | $140,334 |
| *Non-GAAP Gross Margin %* | *85%* | *84%* | *84%* | *85%* | *80%* | *80%* | *80%* | *80%* | *78%* | *76%* |

| in 000s | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 2018 Q1 | 2018 Q2 | 2018 Q3 | 2018 Q4 | 2019 Q1 | 2019 Q2 |
|---|---|---|---|---|---|---|---|---|---|---|
| Research and development (GAAP) | $32,669 | $36,749 | $40,252 | $43,965 | $46,502 | $48,492 | $49,360 | $54,558 | $58,183 | $61,486 |
| Share Based Compensation | $4,726 | $6,586 | $7,190 | $7,725 | $8,485 | $9,470 | $10,372 | $11,090 | $12,256 | $14,119 |
| Amortization | $136 | $138 | $136 | $136 | $137 | $136 | $137 | $136 | $137 | $136 |
| Aquisition related expenses | $1,713 | $860 | $889 | $2,107 | $1,095 | $1,084 | $261 | $125 | $0 | $0 |
| Non-GAAP research and development | $26,094 | $29,165 | $32,037 | $33,997 | $36,785 | $37,802 | $38,590 | $43,207 | $45,790 | $47,231 |
| *% of collections* | *23%* | *25%* | *27%* | *26%* | *23%* | *24%* | *24%* | *25%* | *23%* | *24%* |
| | | | | | | | | | | |
| Selling and marketing (GAAP) | $54,329 | $48,016 | $51,184 | $50,906 | $67,011 | $58,855 | $62,247 | $61,065 | $85,718 | $71,329 |
| Share Based Compensation | $1,419 | $1,778 | $1,826 | $1,562 | $2,042 | $2,352 | $2,597 | $2,779 | $4,748 | $4,506 |
| Amortization | $50 | $62 | $55 | $1,535 | $309 | $453 | $454 | $454 | $453 | $455 |
| Aquisition related expenses | $611 | $0 | $0 | $496 | $237 | ($138) | $0 | $0 | $0 | $0 |
| Non-GAAP selling and marketing | $52,249 | $46,176 | $49,303 | $47,313 | $64,423 | $56,188 | $59,196 | $57,832 | $80,517 | $66,368 |
| *% of collections* | *46%* | *39%* | *41%* | *36%* | *40%* | *35%* | *36%* | *33%* | *40%* | *33%* |
| | | | | | | | | | | |
| General and administrative (GAAP) | $11,148 | $11,295 | $12,222 | $13,521 | $13,670 | $14,855 | $14,514 | $16,258 | $18,466 | $20,103 |
| Share Based Compensation | $2,331 | $2,920 | $3,236 | $3,471 | $4,068 | $4,860 | $4,689 | $5,108 | $6,592 | $7,504 |
| Amortization | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $6 |
| Acquisition related expenses | $1,413 | $0 | $0 | $540 | $96 | $0 | $0 | $0 | $0 | $53 |
| Non-GAAP general and administrative | $7,404 | $8,375 | $8,986 | $9,510 | $9,506 | $9,995 | $9,825 | $11,150 | $11,874 | $12,540 |
| *% of collections* | *6%* | *7%* | *7%* | *7%* | *6%* | *6%* | *6%* | *6%* | *6%* | *6%* |

| in 000s | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 2018 Q1 | 2018 Q2 | 2018 Q3 | 2018 Q4 | 2019 Q1 | 2019 Q2 |
|---|---|---|---|---|---|---|---|---|---|---|
| GAAP Operating Loss | ($20,471) | ($10,563) | ($11,454) | ($7,523) | ($18,452) | ($6,507) | ($3,498) | ($2,173) | ($27,792) | ($14,161) |
| Share Based Compensation | $8,982 | $11,979 | $13,035 | $13,704 | $15,674 | $17,769 | $18,760 | $20,127 | $24,907 | $27,565 |
| Amortization | $186 | $1,240 | $948 | $379 | $588 | $731 | $733 | $732 | $732 | $738 |
| Acquisition Related Expenses | $3,765 | $860 | $889 | $3,143 | $1,428 | $946 | $261 | $125 | $0 | $53 |
| Non-GAAP Operating Income (Loss) | ($7,538) | $3,516 | $3,418 | $9,703 | ($762) | $12,939 | $16,256 | $18,811 | ($2,153) | $14,195 |

| in 000s | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 2018 Q1 | 2018 Q2 | 2018 Q3 | 2018 Q4 | 2019 Q1 | 2019 Q2 |
|---|---|---|---|---|---|---|---|---|---|---|
| GAAP Net Loss | ($20,885) | ($14,264) | ($14,519) | ($6,605) | ($19,811) | ($5,640) | ($5,916) | ($5,753) | ($30,740) | ($16,734) |
| Share Based Compensation & Other Non-GAAP Adjustments | $12,933 | $14,079 | $14,872 | $13,840 | $17,690 | $19,446 | $24,719 | $26,523 | $32,208 | $33,690 |
| Non-GAAP Net Income (Loss) | ($7,952) | ($185) | $353 | $7,235 | ($2,121) | $13,806 | $18,803 | $20,770 | $1,468 | $16,956 |

| in 000s | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 2018 Q1 | 2018 Q2 | 2018 Q3 | 2018 Q4 | 2019 Q1 | 2019 Q2 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net cash provided by operating activities | $16,397 | $19,651 | $22,063 | $24,941 | $24,779 | $27,268 | $27,607 | $36,055 | $35,074 | $37,180 |
| Capital expenditures, net | ($1,616) | ($2,239) | ($3,128) | ($5,386) | ($3,358) | ($3,411) | ($3,916) | ($3,391) | ($5,028) | ($6,426) |
| Free Cash Flow | $14,781 | $17,412 | $18,935 | $19,555 | $21,421 | $23,857 | $23,691 | $32,664 | $30,046 | $30,754 |